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Governor's budget and legislative budget analysis 1999 biennium

GOVERNOR'S BUDGET and LEGISLATIVE BUDGET ANALYSIS 1999 BIENNIUM

Agency Budgets — Volume 2

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GOVERNOR'S BUDGET and LEGISLATIVE BUDGET ANALYSIS

1999 Biennium

Agency Budgets — Volume 2

Presented to the Fifty-fifth Legislature

by

Office of the Governor and **Legislative Fiscal Division**

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INSTITUTIONS AND PUBLIC SAFETY

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

Board of Crime Control
Justice
Public Service Regulation
Corrections
Labor and Industry
Military Affairs

----------Committee Members----------

House	Senate
Representative Gary Feland (Chair)	Senator Arnie Mohl (Vice-Chair)
Representative William "Red" Menahan	Senator Chris Christiaens
Representative Steve Vick	Senator Mike Taylor

----------Fiscal Division Staff----------

Joanne Chance
Skip Culver
Cindy Weaver

----------OBPP Representatives----------

Mary LaFond
Flo Smith

4107 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Crime Control Division				
FTE	20.00	0.00	0.75	20.75	0.00	1.00	21.00	20.75
Personal Services	688,109	15,655	19,766	723,530	16,981	26,355	731,445	1,454,975
Operating Expenses	295,270	47,210	31,830	374,310	50,648	31,830	377,748	752,058
Equipment	9,199	3,969	1,000	14,168	1,169	1,000	11,368	25,536
Grants	4,421,762	2,833,238	662,500	7,917,500	2,483,238	662,500	7,567,500	15,485,000
Benefits and Claims	581,902	124,098	0	706,000	124,098	0	706,000	1,412,000
Total Costs	$5,996,242	$3,024,170	$715,096	$9,735,508	$2,676,134	$721,685	$9,394,061	$19,129,569
General Fund	2,057,201	218,532	217,596	2,493,329	221,871	224,185	2,503,257	4,996,586
Federal Special	3,939,041	2,805,638	497,500	7,242,179	2,454,263	497,500	6,890,804	14,132,983
Total Funds	$5,996,242	$3,024,170	$715,096	$9,735,508	$2,676,134	$721,685	$9,394,061	$19,129,569

Mission Statement

To promote public safety by strengthening the coordination and performance of the criminal and juvenile justice system by increasing citizen and public official support and involvement in those systems.

Agency Description

The Crime Control Division, under the direction of a supervisory Montana Board of Crime Control whose members are appointed by the Governor, provides financial support, technical assistance, and supportive services to state and local criminal justice agencies. The board administers and awards several grant programs, including the Juvenile Justice and Delinquency Prevention Act, the Victim/Witness Assistance Act, the Violence Against Women Prevention Act, the Safe and Drug-Free Schools and Communities Act, the State and Local Law Enforcement Assistance Act, the Drug Enforcement and System Improvement Act, the National Criminal History Improvement Program, the State-Wide Regional Juvenile Detention program, and the State\Federal Crime Victims' Compensation program. The division was created by 2-15-2006, MCA.

4107 00
Crime Control Division **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	20.00	0.75	20.75	20.00	1.00	21.00	20.00	20.75
Personal Services	703,764	19,766	723,530	705,090	26,355	731,445	1,409,142	1,454,975
Operating Expenses	342,480	31,830	374,310	345,918	31,830	377,748	698,840	752,058
Equipment	13,168	1,000	14,168	10,368	1,000	11,368	20,591	25,536
Grants	7,255,000	662,500	7,917,500	6,905,000	662,500	7,567,500	10,589,309	15,485,000
Benefits and Claims	706,000	0	706,000	706,000	0	706,000	1,237,001	1,412,000
Total Costs	$9,020,412	$715,096	$9,735,508	$8,672,376	$721,685	$9,394,061	$13,954,883	$19,129,569
General Fund	2,275,733	217,596	2,493,329	2,279,072	224,185	2,503,257	4,273,988	4,996,586
Federal Special	6,744,679	497,500	7,242,179	6,393,304	497,500	6,890,804	9,680,895	14,132,983
Total Funds	$9,020,412	$715,096	$9,735,508	$8,672,376	$721,685	$9,394,061	$13,954,883	$19,129,569

Funding

In fiscal 1996, the Crime Control Division expended $2,057,200 general fund and $5,407,040 federal funds. General fund is used to fund: 1) the crime victims' compensation benefits and administration; 2) administration of the Youth Detention Services Grant program; 3) the state matching funds for administration of the federal Victim Assistance Grant program; 4) operation of the Peace Officer Standards and Training program; 5) the Montana Uniform Crime Reporting System; 6) general agency administration; 7) technical assistance to local law enforcement; and 8) state match funds for the juvenile justice and drug enforcement federal grant programs.

Prior to fiscal 1996 the crime victims' compensation benefits and administration were funded from state special revenue. The 1995 legislature de-earmarked these funds and appropriated the program from the general fund beginning in fiscal 1996.

Federal funds are primarily for the pass-through grant programs and a portion of crime victims' compensation benefits in the 1997 biennium. Federal funding is also used to fund juvenile justice programs and for administration of the Juvenile Justice and Drug Enforcement Block Grant programs. In fiscal 1996 the agency expended $5.4 million in federal funds, of which $3.9 million are included in the base budget.

For the 1999 biennium the Executive Budget is proposing a general fund increase of about $436,000 for fiscal 1998 and $446,000 for fiscal 1999, approximately a 21 percent increase over fiscal 1996. Federal funds are increased over the base budget by approximately $6.3 million over the biennium.

Executive Present Law

4107 01 Crime Control Division / Justice System Support Service — Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	15,205	16,531
02		Inflation/Deflation	(1,292)	(1,328)
03		Fixed Costs	9,991	11,765
		Total Statewide Adjustments	$23,904	$26,968
Significant Present Law Adjustments				
04	79199	Computer Equipment	3,969	1,169
05	91001	Board Per Diem	450	450
06	91002	Professional Services	37,541	39,241
07	91003	Statewide Indirect Costs	970	970
		Total Significant PL Adjustments	$42,930	$41,830
Other Base Adjustments			$2,957,336	$2,607,336
		Grand Total Present Law Adjustments	$3,024,170	$2,676,134

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Computer Equipment - The recommended equipment includes the replacement of three workstations per year and one specialized machine each year of the biennium for a total of $9,500 per year. In addition, a letter-quality laser printer is recommended in fiscal 1998 for $2,800 and two dedicated printers each year of the biennium at a cost of $434 per printer. Equipment base expenditures in fiscal 1996 amounted to $9,199.

5) Board Per Diem - Board member payments are required for six members of the Board of Crime Control and for eight members of the Youth Justice Advisory Council. The membership changes as terms expire and new members are appointed. Costs will vary depending on membership and the number of meetings. If all fourteen board members attend all four meetings each year of the biennium, $2,000 per year will be needed to cover the obligation. The budget results in an increase of $450 over the fiscal 1996 base.

6) Professional Services - The Board of Crime Control contracts for a number of professional services including secretarial services, the development or updating of peace officer test booklets, or informational pamphlets on the victims compensation program. The primary difference between fiscal 1996 and the 1999 biennium is $40,000 for programming services for a new juvenile information system.

LFD Comment **- This present law increase is funded from the general fund. The juvenile information system referred to is the Child and Protective Services (CAPS) system which is administered by the Department of Public Health and Human Services. The Board of Crime Control is contracting with private programmers to modify the system to track juvenile offender data. At this time no adequate juvenile offender data base exists within state government to assess budgetary requirements for juvenile programs and to project future trends.**

7) Statewide Indirect Costs - Statewide indirect costs are estimated to be $2,500 per year because of increased federal funds received by the agency. There was $1,530 paid in fiscal 1996, resulting in an increase of $970 each year of the 1999 biennium.

Other Base Adjustments - This is composed of three programs: 1) Grants from state sources passed through to local county government to fund statewide regional juvenile detention. Costs are expected to increase because of changes in licensing requirements for detention facilities, primarily to address medical and educational liability issues. The recommended amount of $1,000,000 is an increase of $165,058 over fiscal 1996 actuals. 2) Grants from federal sources passed through to local units of government are expected to increase with the majority coming from Narcotics Control, Violence Against Women,

and Victim Assistance Block Grants. Authority of $6,255,000 in fiscal 1998 and $5,905,000 in fiscal 1999 is recommended. Increases over fiscal 1996 actual disbursements amount to $2,668,180 and $2,318,180 respectively. 3) Benefit payments for crime victims are expected to increase. There is $706,000 recommended each year of the biennium, an increase of $124,098 per year.

LFD Issue **- Table 1 shows the actual expenditures for "Grants and Benefits" for fiscal 1996, and the present law amount requested for the 1999 biennium. The general fund present law increases included in the grants and benefits category are: 1) crime victim compensation, $51,099 and 2) juvenile detention centers, $165,058.**

Table 1
Pass Through Grants & Benefits

	Fiscal 96 Actual	Fiscal 97 Authorized	Fiscal 98 Requested	Fiscal 99 Requested
General Fund				
Juvenile Detention Centers	$834,942	$945,402	$1,000,000	$1,000,000
Crime Victims Conpensation	504,901	505,000	556,000	556,000
Subtotal - General Fund	$1,339,843	$1,450,402	$1,556,000	$1,556,000
Federal Fund				
Drug Free Schools	$382,340	$416,711	$475,000	$475,000
Victim Assistance	490,000	646,000	870,000	870,000
Juvenile Delinquency Prev	495,015	560,000	560,000	560,000
Criminal Records	0	385,562	650,000	650,000
Violence Against Women	0	798,000	1,000,000	1,000,000
Narcotics Control	2,219,465	2,388,139	2,500,000	2,500,000
Victim Conpensation	77,000	150,000	150,000	150,000
Subtotal - Federal	$3,663,820	$5,344,412	$6,205,000	$6,205,000
Total Grants & Benefits	$5,003,663	$6,794,814	$7,761,000	$7,761,000

The general fund present law increase for crime victim compensation is a 10 percent increase from fiscal 1996 to fiscal 1999 and the present law increase for the Juvenile Detention center is 20 percent. These inflation rates are considerably higher than what is generally applied to the Executive Budget.

Prior to fiscal 1996 the Crime Control Division received a statutory appropriation of 9.1 percent of the net proceeds from the state lottery, not to exceed $1 million in any fiscal year. The 1995 legislature removed this statutory appropriation, de-earmarked the revenue, and redirected the proceeds to the general fund. Beginning in the 1997 biennium, grants for juvenile detention centers are appropriated from the general fund. In addition, prior to fiscal 1996, the income from Justice of the Peace Courts (fines, forfeitures, penalties, and fees) had been used to directly fund the crime victims compensation program from a state special revenue account. Consequently, the appropriation (and expenditures) were limited by the amount of money deposited to the account. As a result of legislation passed by the 1995 legislature, this revenue is now deposited to the general fund and the crime victim compensation program is appropriated now from the general fund. While one of the purposes of de-earmarking is to determine the appropriate level of appropriation in the context of total general fund priorities and not to a particular fund source, it should be noted that the agency is requesting a total general fund increase of about $20,000 more than would have been available had the funding remained from the previous source.

4107 01
Crime Control Division
Executive Budget New Proposals

Justice System Support Service

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Crime Victim Conpensation	0.75	(7,404)		(7,404)	1.00	(815)		(815)
02 Regional Juvenile Detention		225,000		225,000		225,000		225,000
03 Statistical Analysis Cent			50,000	50,000			50,000	50,000
04 Federal Grants			447,500	447,500			447,500	447,500
Total For New Proposals	0.75	$217,596	$497,500	$715,096	1.00	$224,185	$497,500	$721,685

Executive New Proposals

1) Crime Victim Compensation - The Executive Budget adds 0.75 FTE in fiscal 1998 and 1.00 FTE in fiscal 1999 to process crime victim compensation claims. This function was formerly contracted, but due to issues regarding confidentiality of crime victims, and impediments to releasing confidential information to non-agency representatives, the division determined that performing this function with agency staff is the most efficient and cost-effective manner of delivering services.

LFD Issue - **This proposal adds no new programs. The executive is proposing, because of the reasons listed above, that a state employee and not a contractor process crime victim compensation forms. This Executive Budget proposal is presented as a negative amount because the recommendation is for a 0.75 FTE in fiscal 1998, with costs that are less than the present level contracted amount in fiscal 1996. The Executive Budget is recommending that all new positions begin 3 months into the fiscal year to generate vacancy savings to partially fund the proposed pay plan. Because this program is presently in existence, the legislature may want to consider that maintaining a forced vacancy savings will result in the program not operating for up to 3 months.**

2) Regional Juvenile Detention Facility - Boulder - The Executive Budget adds $225,000 each year of the biennium for a grant to provide 50 percent state funding for the operation of the Boulder juvenile detention facility, scheduled to open July 1997. Currently, Montana has three regional detention programs which serve youth requiring long-term detention and four facilities which serve youth for up to 96 hours. Funding is 100 percent general fund.

LFD Issue - **Jefferson county is proposing this facility to serve the counties in the Southwest Region of Montana. The proposal is to remodel a building on the Montana Developmental Center campus for this purpose, with Jefferson county paying for the remodeling costs. The state of Montana contributes up to 50 percent of the annual operating budgets for the youth detention facility, the other 50 percent being paid by the counties using the facility to house delinquent youth. The average cost per bed per year is presently at $37,500 per year. The Jefferson County facility is planned as a 12 bed facility. Using this rate, the annual operation costs are $450,000 per year. The state of Montana's share would be $225,000. Presently, Jefferson county is applying for federal grants to assist in the remodeling expenses and it appears that this detention facility will not be operational until January, 1998 at the earliest. Before appropriating operational funds, the legislature will need to have a more accurate assessment of when this detention facility will begin operation. At the least, the legislature, should they desire to fund this facility, could reduce the first year appropriation by $112,000.**

3) Statistical Analysis Center - The Executive Budget adds $50,000 federal funds each year of the biennium for a statistical analysis center (SAC) grant awarded from the Bureau of Justice Statistics. SAC grants are offered to states to enhance and expand a state's capability to develop and analyze relevant statistical information related to the justice system. The funds will allow the division to collect data and perform analysis essential to provide information to policy makers regarding justice issues and to continue the refinement and compatibility with national standards regarding the reporting and measurement of crime, victims, and arrest. The division has submitted applications and received awards for these funds for the past three years and believes the awards will continue.

4) Federal Grant - The Executive Budget adds $447,500 each year of the biennium for three federal grants. They are: 1) Juvenile Justice and Delinquency Prevention Block Grant - a pass-through grant to local communities to allow them to increase community-based alternatives to juvenile incarceration; 2) a local law enforcement assistance grant, which makes funds available to smaller law enforcement agencies to provide them assistance for the purposes of reducing crime and improving public safety; and 3) a substance abuse treatment grant to provide funding for substance abuse treatment to inmates of state or local correctional facilities. The division will coordinate with the Department of Public Health and Human Services and the Department of Corrections to assure that the appropriate target population is selected.

4110 00

Agency Proposed Budget

Department of Justice

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	667.55	2.15	11.25	680.95	2.15	17.00	686.70	680.95
Personal Services	22,659,911	2,336,863	324,101	25,320,875	2,401,368	504,085	25,565,364	50,886,239
Operating Expenses	9,671,482	809,945	621,606	11,103,033	746,758	682,126	11,100,366	22,203,399
Equipment	2,186,676	37,085	974,800	3,198,561	92,533	191,600	2,470,809	5,669,370
Local Assistance	0	0	0	0	0	0	0	0
Debt Service	375,012	(261,873)	0	113,139	(262,258)	0	112,754	225,893
Total Costs	$34,893,081	$2,922,020	$1,920,507	$39,735,608	$2,978,401	$1,377,811	$39,249,293	$78,984,901
General Fund	14,644,745	2,205,619	1,078,785	17,929,150	2,072,250	930,511	17,647,506	35,576,656
State/Other Special	18,453,774	871,111	547,556	19,872,441	1,007,128	196,580	19,657,482	39,529,923
Federal Special	1,785,425	(156,160)	197,071	1,826,337	(101,415)	129,377	1,813,387	3,639,723
Proprietary	9,137	1,450	97,094	107,681	438	121,344	130,919	238,600
Total Funds	$34,893,081	$2,922,020	$1,920,507	$39,735,608	$2,978,401	$1,377,811	$39,249,293	$78,984,901

Mission Statement

The Department of Justice will pursue activities and programs that seek to ensure and promote the public interest, safety, and well-being through leadership, advocacy, education, regulation, and enforcement.

Agency Description

The Department of Justice, under the direction of the Attorney General, is responsible for statewide legal services and counsel, law enforcement, and public safety, as authorized in 2-15-501, MCA. The duties of the department include: 1) providing legal representation for the state and its political subdivisions in criminal appeals; 2) providing legal services and counsel for the state, county, and municipal agencies and their officials; 3) enforcing Montana traffic laws and registering all motor vehicles; 4) enforcing state fire safety codes and regulations; 5) assisting local law enforcement agencies in bringing offenders to justice; 6) managing a statewide system of death investigations and providing scientific analyses of specimens submitted by law enforcement officials, coroners, and state agencies; and 7) providing for the uniform regulation of all gambling activities in the state of Montana.

Supplemental Appropriation

Natural Resource Damage Control Program (NRD)

State special revenue loan of $730,000. The NRD is administratively attached to the Department of Justice and supported by a loan from the coal severance tax trust fund. The 1995 legislature passed HB 305, Chapter 411, *Laws of 1995*, which reauthorized NRD for the 1997 biennium and included a $2,359,000 biennial appropriation. The $730,000 supplemental loan is being requested in a separate bill because it is projected that the NRD will exceed its appropriation as early as the end of January. The Montana v. Arco case on the Clark Fork River basin is scheduled to go to trial during the winter of 1997 and the resources needed for trial preparation were underestimated during the last legislative session. The increased loan will decrease general fund revenue by approximately $11,000 in fiscal 1997 and $45,000 each year thereafter, as shown on the balance sheet.

4110 00
Department of Justice

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	669.70	11.25	680.95	669.70	17.00	686.70	667.55	680.95
Personal Services	24,996,774	324,101	25,320,875	25,061,279	504,085	25,565,364	46,605,476	50,886,239
Operating Expenses	10,481,427	621,606	11,103,033	10,418,240	682,126	11,100,366	19,825,448	22,203,399
Equipment	2,223,761	974,800	3,198,561	2,279,209	191,600	2,470,809	5,063,778	5,669,370
Local Assistance	0	0	0	0	0	0	0	0
Debt Service	113,139	0	113,139	112,754	0	112,754	652,556	225,893
Total Costs	$37,815,101	$1,920,507	$39,735,608	$37,871,482	$1,377,811	$39,249,293	$72,147,258	$78,984,901
General Fund	16,850,364	1,078,785	17,929,150	16,716,995	930,511	17,647,506	30,534,589	35,576,656
State/Other Special	19,324,885	547,556	19,872,441	19,460,902	196,580	19,657,482	37,214,059	39,529,923
Federal Special	1,629,265	197,071	1,826,337	1,684,010	129,377	1,813,387	4,380,961	3,639,723
Proprietary	10,587	97,094	107,681	9,575	121,344	130,919	17,649	238,600
Total Funds	$37,815,101	$1,920,507	$39,735,608	$37,871,482	$1,377,811	$39,249,293	$72,147,258	$78,984,901

Agency Issue

LFD Issue - Negative Fund Balance: Gambling License Fee State Revenue Account

There are not sufficient revenues to the Gambling License Fee Account (GLFA) to fund the appropriations from the account as requested in the Executive Budget. If the legislature were to adopt the Executive Budget as proposed, the account would have a deficit fund balance before the end of fiscal 1998. Table 1 projects the status of the GLFA through the 1999 biennium using the revenues as adopted by the Legislative Revenue Oversight Committee (ROC) and the appropriations as requested in the Executive Budget. As shown in the table the projected balance at the end of the 1999 biennium would be a negative $699,850. Because an account cannot go negative, the legislature must either increase the revenue or reduce the budget request.

As authorized in Section 23-5-612, MCA, revenues to the GLFA are 50 percent of the gambling machine permit fee (the other 50 percent goes to local government) and 100 percent of the machine transfer processing fee. By statute, the department is to charge $200 for each video gambling machine permit and $25 for each machine transferring ownership. Each $10 increase in the gambling machine permit would generate approximately $190,000.

Table 1
Gambling License Fee Account
Fiscal 1996 through 1999

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999
Beginning Balance	$640,452	$390,598	$474,060	($249,196)
Revenue				
Gambling License Fee (1)	$2,051,216	$2,068,000	$2,112,000	$2,084,000
Misc Fines/Forfeits (2)	65,390	65,000	65,000	65,000
Total Revenue	$2,116,606	$2,133,000	$2,177,000	$2,149,000
Disbursements				
Department of Justice				
Base Budget	$2,215,842	$1,890,538	$2,067,163	$2,071,080
Statutory Appropriation	111,742	159,000	151,870	152,025
Present Law Adjustments			(176,677)	(157,925)
Subtotal: Present Law	$2,327,584	$2,049,538	$2,042,356	$2,065,180
New Proposals				
Dept of Justice			$807,900	$434,474
DPHHS			50,000	100,000
Subtotal: New Proposals	$0	$0	$857,900	$534,474
Adjustments	(38,876)	0	0	0
Ending Balance	$390,598	$474,060	($249,196)	($699,850)

(1) Gambling License Fees are as adopted by Revenue Oversight Committee
(2) Miscellaneous revenue projected at fiscal 1996 levels.

Requested 1999 biennium appropriations from the GLFA in the Executive Budget total $2,748,386 for fiscal 1998 and $2,447,629 for fiscal 1999. In addition, a statutory appropriation from the account is projected to total $151,870 in fiscal 1998 and $152,025 in fiscal 1999. Table 1 provides a breakdown of requested expenditures. Included in the Executive Budget request are two major new proposals: 1) an automated accounting and reporting system (fiscal 1998: $800,000; fiscal 1999: $125,000); and 2) a gambling addiction program in the Department of Public Health and Human Services (fiscal 1998:$50,000; fiscal 1999: $100,000). The reporting system and other present law adjustments funded with GLFA are discussed in the program narratives that follow.

4110 01
Department of Justice — **Legal Services Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	33.00	0.00	3.75	36.75	0.00	5.00	38.00	36.75
Personal Services	1,518,881	94,042	128,536	1,741,459	98,802	171,383	1,789,066	3,530,525
Operating Expenses	367,616	221,345	47,565	636,526	214,757	47,565	629,938	1,266,464
Equipment	47,976	(8,116)	4,350	44,210	(29,876)	0	18,100	62,310
Local Assistance	0	0	0	0	0	0	0	0
Debt Service	2,096	(2,096)	0	0	(2,096)	0	0	0
Total Costs	$1,936,569	$305,175	$180,451	$2,422,195	$281,587	$218,948	$2,437,104	$4,859,299
General Fund	1,728,709	293,813	30,422	2,052,944	269,348	97,604	2,095,661	4,148,605
State/Other Special	168,311	6,777	0	175,088	7,654	0	175,965	351,053
Federal Special	39,549	4,585	52,935	97,069	4,585	0	44,134	141,203
Proprietary	0	0	97,094	97,094	0	121,344	121,344	218,438
Total Funds	$1,936,569	$305,175	$180,451	$2,422,195	$281,587	$218,948	$2,437,104	$4,859,299

Program Description

The Legal Services Division provides the Attorney General with legal research and analysis; provides legal counsel for state government officials, bureaus, and boards; provides legal assistance to local governments and Indian tribes; and provides legal assistance, training, and support for county prosecutors.

The Indian Legal Jurisdiction program provides representation and coordination of trial and appellate lawsuits involving the State of Montana and the Indian tribes, supervision of private attorneys contracted by the state to assist with those cases, and advice to state agencies on questions involving Indian legal matters.

The County Prosecutor Services program provides special prosecution assistance to counties in the prosecution and disposition of major felonies and in cases in which county attorneys or city attorneys have conflicts of interest. County Prosecutor Services also provides prosecutor services to the Eastern Coal Counties Drug Task Force and the Western Montana Special Investigation Section and coordinates training and continuing legal education for county attorneys, city attorneys, and law enforcement personnel.

The Legal Services Division program operates as a state mandate.

Funding

The Legal Services Division is primarily supported by general fund, which provides approximately 85 percent of the total funding.

State special revenue funds total: 1) $58,705 each year from the crime investigation account, which supports one attorney and associated operating costs; 2) $102,054 in fiscal 1998 and $102,909 in fiscal 1999 in gambling license fees, which supports two attorneys and associated operating costs; 3) $14,329 in fiscal 1998 and $14,351 in fiscal 1999 in highways special revenue funds; and 4) $44,134 each year from a federal crime grant. The Executive Budget is proposing that the Bankruptcy unit be funded from a proprietary account beginning in fiscal 1998. During the 1997 biennium this function was funded from the general fund.

Executive Present Law

4110 01 Department of Justice Legal Services Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	94,042	98,802
02		Inflation/Deflation	(4,245)	(4,040)
03		Fixed Costs	20,714	23,741
		Total Statewide Adjustments	$110,511	$118,503
Significant Present Law Adjustments				
04	79199	Computer/Software Lsd-Nondis	0	0
05	91011	Major Litigation - Pl	214,169	214,169
06	91012	Operating Reductions	(11,389)	(21,209)
07	91013	Equipment Replacement - Pl	(8,116)	(29,876)
		Total Significant PL Adjustments	$194,664	$163,084
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$305,175	$281,587

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Major Litigation - The legislature historically authorizes a $500,000 biennial appropriation for major litigation in which the Legal Services Division must provide representation to the State of Montana. This appropriation is split evenly between both years of the upcoming biennium. The department is unable to estimate the costs of unforeseen lawsuits that may be filed against the state. Litigation costs incurred beyond the traditional initial recommended funding level will result in a supplemental budget request.

LFD Comment **- In fiscal 1996 the agency expended $35,444 from this appropriation, primarily for consultant and expert witnesses in the Egelhoff Supreme Court Case and the Crow Coal and Blackfeet water litigation. Additional expenses as a result of the Crow Coal, Blackfeet water, abortion, and legislative reapportionment lawsuits are anticipated in fiscal 1997. This appropriation could be restricted to major litigation only.**

5) Operating Reductions - The division has reduced the number of law books and other reference materials ordered each year. The base year actual expenditures also reflect the periodic printing of Attorney General Opinions in book form. The printing usually occurs once every four to five years and is not an annual expense. Fiscal 1996 also reflects a one-time expense for minimal security enhancement in the reception area of the Attorney General's office.

6) Equipment Replacement - Fiscal 1996 equipment expenditures were $47,976. The executive recommends an equipment budget of $39,860 in fiscal 1998 and $18,100 in fiscal 1999. These funds will purchase 15 replacement computers in fiscal 1998 and five in fiscal 1999. One laptop computer will be purchased each year. These will be used by attorneys when travel is required.

4110 01
Department of Justice
Executive Budget New Proposals

Legal Services Division

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Excluded Base Expenditures								
02 Bankruptcy/Collection Unit	2.25		97,094	97,094	3.00		121,344	121,344
03 Special Prosecutor	1.50	26,072	52,935	79,007	2.00	97,604		97,604
04 Equip - Lsd - Nondis		4,350		4,350				
Total For New Proposals	3.75	$30,422	$150,029	$180,451	5.00	$97,604	$121,344	$218,948

Executive New Proposals

1) Bankruptcy/Collection Unit - The 1995 legislature approved the Bankruptcy/Collection Unit as a specialized unit to collect money due the state, with emphasis on bankruptcy cases. As a pilot project, one attorney, one paralegal, and a secretary would be assigned to the unit. Funding of $111,876 in fiscal 1996 and $111,733 in fiscal 1997 would come from the general fund. The unit would sunset at the end of the biennium if collections did not equal or exceed expenditures. If sufficient funds were collected, the unit would continue through the use of a proprietary account.

This proposal would remove the sunset provision and make the bankruptcy unit a permanent program. The bankruptcy attorney's caseload includes more than 30 matters involving in excess of $1.7 million in potential state claims. In the first eight months of operation, the unit has successfully established claims for more than $326,000 and has collected $183,000.

LFD Issue - The Executive Budget is proposing that all new proposals begin three months into the fiscal year to generate vacancy savings to partially fund the pay plan. Because this program has been operational since fiscal 1995, if the legislature approves this proposal, they may want to consider that applying this policy of forced vacancy savings may result in the program ceasing to operate for up to three months.

LFD Issue - The executive is proposing that the bankruptcy collection unit be funded for the 1999 biennium from a proprietary account, which was the intent of the 1995 legislature, if the program was successful in collecting sufficient funds to be self supporting. As noted in the executive proposal above, the Department of Justice states that more than $183,000 has been collected for the state ($159,000 in fiscal 1996) as a result of the operations of the Bankruptcy/Collection Unit. However, LFD staff has examined these revenues and $150,000 of this revenue was attributed to a bankruptcy proceeding that began in 1988 administered by the Department of Revenue (DOR). The Bankruptcy Unit did provide assistance; however, it is likely that these funds would have been collected by DOR regardless of the existence of the Bankruptcy Unit. In addition, some of the other revenue is the result of bad debt collections, not bankruptcy filings, which were turned over to the Bankruptcy Unit for legal assistance by the Debt Collection Bureau of the Department of Administration. Therefore, it is unclear whether the Bankruptcy/Collection Unit has in fact achieved a level of self sufficiency that will support continued funding.

The Debt Collection Bureau in the Department of Administration is funded from a proprietary account whose revenues are derived from a percentage of the bad debts collected for other state agencies. Because the functions and services of both the Debt Collection Bureau and the Bankruptcy Unit are closely related and because the Debt Collection Bureau has a reliable revenue flow, if the legislature chooses to continue this

service they may want to consider combining these two functions within one agency.

2) Special Prosecutor - In 1996, the Department of Justice received a grant from the U. S. Department of Justice to fund an additional prosecutor and a support staff to address the increasing caseload. This proposal would allow the agency to retain the two positions after the federal grant funding expires in February 1998. There is $26,072 of general fund recommended in fiscal 1998 to finish out the fiscal year, and $97,604 in fiscal 1999.

LFD Issue **- The Executive Budget is proposing that all new proposals begin three months into the fiscal year to generate vacancy savings to partially fund the pay plan. Because this program has been operational since fiscal 1995, if the legislature approves this proposal, they may want to consider that applying this policy of forced vacancy savings may result in the program ceasing to operate for up to three months.**

3) Equipment - New - This proposal would establish an electronic library or bulletin board system accessible to all state attorneys. It was included as a recommendation in the joint study of state legal services completed by the Governor and the Attorney General in 1995. The brief bank system should reduce redundant briefing and research by the state agency attorneys, ensure greater uniformity of substantive positions, and improve the overall legal representation of the state. The $4,350 recommend in fiscal 1998 would include the purchase of two modems, a PC/server, and software. General fund would support the proposal.

Elected Officials New Proposals

The following new proposal is being requested by the Attorney General, and is not included in the Executive Budget.

Habeas Corpus Reform - The recently enacted federal habeas corpus reform law allows states to opt into fast track procedures for federal habeas corpus review of criminal convictions arising from Montana courts. This option would impose a time limit of 90 days (with one 60-day extension possible) for the imposition of sentences in death penalty cases and expedite time lines for processing state post-conviction petitions, requiring that petitions be filed within specified time frames. This expedited process would eliminate unnecessary delays in death penalty appeals and certain other criminal proceedings by requiring that briefs and pleadings be filed without extensions of time. Condensing post-conviction time frames will increase the current workload in the Legal Services Division and require additional staff to meet new federal and state time deadline requirements. The Attorney General requests $79,400 in Fiscal Year 1998 to hire one attorney and one legal secretary beginning in October 1997 and $154,600 in Fiscal Year 1998 to add a second attorney and to fully fund the staff needed to implement the speedier appeals process.

Requested Language

The legislature recognizes the costs associated with litigation in which the legal services division is required to provide representation to the state of Montana may exceed the appropriation provided. In that event, the department will need to request a supplemental appropriation from the 1999 legislature to adequately represent the state.

Program Description

The Agency Legal Services program provides legal services to state agencies upon request, particularly in support of litigation. Agencies are billed for attorney time and case-related costs to support the program. The program is administratively attached to the Legal Services Division. The Agency Legal Services program exists to provide cost-effective legal services to state agencies. It has no state or federal mandate.

Funding

Funding is from an internal service account in the proprietary fund.

4110 07
Department of Justice
Program Proposed Budget

Gambling Control Division

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	45.00	0.00	0.00	45.00	0.00	2.00	47.00	45.00
Personal Services	1,522,906	122,766	0	1,645,672	127,583	71,954	1,722,443	3,368,115
Operating Expenses	646,543	(129,015)	0	517,528	(127,375)	237,520	756,688	1,274,216
Equipment	137,618	(79,118)	810,000	868,500	(58,118)	125,000	204,500	1,073,000
Debt Service	1,934	0	0	1,934	4,000	0	5,934	7,868
Total Costs	$2,309,001	($85,367)	$810,000	$3,033,634	($53,910)	$434,474	$2,689,565	$5,723,199
General Fund	359,774	107,189	2,100	469,063	113,795	0	473,569	942,632
State/Other Special	1,949,227	(192,556)	807,900	2,564,571	(167,705)	434,474	2,215,996	4,780,567
Total Funds	$2,309,001	($85,367)	$810,000	$3,033,634	($53,910)	$434,474	$2,689,565	$5,723,199

Program Description

The Gambling Control Division was established by the 1989 legislature to investigate, license, and regulate the gambling industry in Montana. The division has criminal justice authority and conducts routine field inspections and investigations for irregularities in gambling activities. In addition to collecting licensing fees for gambling machines and activities, the division is responsible for: 1) collecting and distributing the gambling tax assessed on the net proceeds of gambling activities; and 2) investigative functions relating to alcoholic beverage licensing and tobacco enforcement. The Gambling Control Division program operates as a state mandate. An appointed gaming advisory council of nine members provides advisory services to the Attorney General to ensure uniform statewide regulation of gambling activities.

Funding

Primary funding for the Gambling Control Division is from the revenues generated through licenses and permits for gambling operators, machines, and other gambling activities, as well as license fees for video gambling machine manufacturers/distributors. As authorized in 23-5-612, MCA., revenues to the GLFA are 50 percent of the gambling machine permit fee (the other 50 percent goes to local government) and 100 percent of the machine transfer processing fee. By statute, the department is to charge $200 for each video gambling machine permit and $25 for each machine transferring ownership. The revenues are deposited into the gambling license fee state special revenue account to be used for the costs related to operations of the division and other agency programs.

The Executive Budget is proposing general fund of $469,063 in fiscal 1998 and $473,569 in fiscal 1999 to support the tobacco and alcoholic beverage enforcement functions.

As noted in the preceding agency narrative, the Gambling License Fee Account that provides primary support for this program has insufficient funds to support the level of service requested in the Executive Budget.

Executive Present Law

4110 07 Department of Justice Gambling Control Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	122,766	127,583
02		Inflation/Deflation	(2,858)	(2,079)
03		Fixed Costs	18,526	20,613
		Total Statewide Adjustments	$138,434	$146,117
Significant Present Law Adjustments				
04	91071	Contracted Services - Pl	(200,000)	(200,000)
05	91072	Vehicle Lease	0	2,700
06	91073	Reimbursed Travel - Pl	15,000	15,000
07	91074	Equipment-Gcd-Nondis	(79,118)	(58,118)
08	91075	Annualized Costs For New Staff	9,049	9,123
09	91076	General Operations - Pl	31,268	31,268
		Total Significant PL Adjustments	($223,801)	($200,027)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	($85,367)	($53,910)

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- The Executive Budget present law adjustments for personal services, inflation/deflation, and fixed costs total $138,434 in fiscal 1998 and $146,117 in fiscal 1999. The funding for these increases is reflected as all general fund; yet in the base year, actual expenditures were 15 percent from the general fund and 85 percent from the gaming tax. If the same ratios were applied in the 1999 biennium, the funding for this present law increase would be fiscal 1998: general fund - $20,765, state special - $117,669; fiscal 1999: general fund - $21,918, state special revenue - $ 124,199.**

4) Contracted Services - This reduction of $200,000 represents the one-time fiscal 1996 contract the division had with two private accounting firms to eliminate a backlog of video gambling machine tax audits. The pilot privatized contract audit project will be completed in fiscal 1997. The remainder of the continued contracted services is for purchase of legal services from Agency Legal Services to assist in completing legal work when case loads exceed the capacity of the division. The division also contracts with four private sector attorneys to act as independent hearings officers on cases on administrative appeal.

5) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $4,000 in fiscal 1999 for two sedans, one to be located in Missoula and the other in Great Falls. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain a reduction of $1,300 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

6) Reimbursed Travel - The executive recommends the continuation of $15,000 per year for out-of-state/country travel. Out-of-state and -country corporations applying for a gambling license must undergo the same background investigation in-state corporations receive. The division anticipates an increase in foreign travel related to the investigations of foreign based companies. Two foreign trips are anticipated each year of the biennium as the applicants which withdrew in the base year are expected to re-submit applications in the 1999 biennium. Costs incurred are fully reimbursed by the applicant before a license is issued.

LFD Comment **- The Gambling Control Divison base budget includes $20,043 for out-of-state travel. This present law adjustment increases the out-of-state travel budget to approximately $35,000 per year.**

7) Equipment - Fiscal 1996 equipment expenditures were $137,618. The executive recommends a replacement equipment budget of $58,500 in fiscal 1998 and $79,500 in fiscal 1999. These funds will replace three vehicles in fiscal 1998 and five vehicles in fiscal 1999. One machine testing pod per year ($7,500) is included and $12,000 in fiscal 1998 is for replacement radios.

8) Annualized Costs for New Staff - The 1995 legislature approved three additional staff to help with the increasing workload. These positions were not filled for the entire year. The recommended funds would reinstate operating funds for a full twelve months. All positions are currently filled, are in regional offices, and travel extensively.

9) General Operations - The executive recommends increases in rent of $18,373 in fiscal 1998 and $19,129 in fiscal 1999 due to inflation factors built into existing rental agreements and to the anticipated move of the Billings regional office to a consolidated Department of Justice office building. Two Criminal Justice Information Network links are necessary for investigation purposes. These links will be available in the Billings and Missoula field offices. The annual user charge is $5,670 per hook-up. An additional $800 per year in security expenses is also requested for the Billings office as the move to the new Department of Justice facility will allow greater public access, thereby necessitating improved security.

4110 07
Department of Justice — **Gambling Control Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Automated Acctg & Reporting			800,000	800,000	2.00		434,474	434,474
02 Equip - Gcd - Disc		2,100	7,900	10,000				
Total For New Proposals		$2,100	$807,900	$810,000	2.00		$434,474	$434,474

Executive New Proposals

1) Automated accounting and reporting system - An automated accounting and reporting system for video gambling machine gross income is proposed to resolve problems identified in the Legislative Auditor's performance audit published in 1994. Those problems include the need to inspect machines more frequently and to include EPROM testing in all inspections. In addition, the audit determined that the tax reporting system does not work as intended; that 28.7 to 38.4 percent of gambling establishments pay an incorrect amount of tax on video gambling machine proceeds; and that an additional 18 to 22 percent of other establishments could be paying an improper amount. The problems identified in this audit cannot be addressed with existing resources. Implementation will take two years to accomplish.

LFD Issue **- The proposed funding source of this proposal (the Gambling Fee License Account) does not have adequate funds to support this request. Please see the discussion in the Agency Issues section.**

2) Investigation Tracking Software - The vast amount of case data, i.e., names, company names, violations, jurisdictions, common ownership, and business relationships, is difficult if not impossible to track manually for easy retrieval and access. It is possible, via data entry, to link common paths between individuals and organizations by bank accounts, geographic location, and other factors. Investigative software is commonly used by law enforcement agencies to access vital criminal justice information quickly. This software could speed both licensing and criminal investigations.

4110 12
Department of Justice — **Motor Vehicle Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	159.10	1.50	0.00	160.60	1.50	0.00	160.60	160.60
Personal Services	3,684,386	572,896	0	4,257,282	580,871	0	4,265,257	8,522,539
Operating Expenses	3,030,687	57,835	150,000	3,238,522	(19,047)	0	3,011,640	6,250,162
Equipment	268,344	(17,219)	138,850	389,975	(67,319)	0	201,025	591,000
Debt Service	143,596	(139,211)	0	4,385	(143,596)	0	0	4,385
Total Costs	$7,127,013	$474,301	$288,850	$7,890,164	$350,909	$0	$7,477,922	$15,368,086
General Fund	6,015,353	474,301	1,002,207	7,491,861	350,909	765,164	7,131,426	14,623,287
State/Other Special	1,111,660	0	(713,357)	398,303	0	(765,164)	346,496	744,799
Federal Special	0	0	0	0	0	0	0	0
Total Funds	$7,127,013	$474,301	$288,850	$7,890,164	$350,909	$0	$7,477,922	$15,368,086

Program Description

The Motor Vehicle Division (MVD), under provision of Title 61, Chapters 2-6, 8, 11, and 12 and Title 23, Chapters 2 and 3, Montana Codes Annotated, and certain federal statutes; is responsible for examination and licensure of all drivers, creation and maintenance of permanent driver's and motor vehicle records, titling and registration of all vehicles including boats, snowmobiles and atvs; inspection and verification of vehicle identification numbers, licensure and compliance control of motor vehicle dealers and manufacturers; furnishing training in the use of the automated title and registration system for county treasurers, motor vehicle dealers and financial institutions, and providing motor voter registration.

Funding

The Motor Vehicle Division is supported by general fund and the highway special revenue account. The Executive Budget reduces the level of support for present law from the highway special revenue account by $713,357 in fiscal 1998 and $765,164 in fiscal 1999. Appropriations from the highway special revenue account total $398,303 in fiscal 1998 and $346,496 in fiscal 1999. General fund provides the replacement funds.

The Executive Budget includes new proposals totaling $288,850 in fiscal 1998 from the general fund. No new proposals are recommended for fiscal 1999.

In fiscal 1996 the division deposited over $14.3 million in drivers' license and vehicle registration fees to the general fund, compared to approximately $14.1 million in program operating costs.

LFD Issue **- The executive states that general fund is replacing highways special revenue due to the condition of that account. For a complete discussion of the highways account, please see the "Agency Issues" section of the Department of Transportation. The Institutions and Public Safety Subcommittee may wish to coordinate with the General Government and Transportation Subcommittee on this issue.**

4110 12
Department of Justice
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Motor Vehicle Division				
FTE	0.00	25.00	0.00	25.00	25.00	0.00	25.00	25.00
Performance Based	1,215,863	69,232	0	1,285,095	68,903	0	1,284,766	2,569,861
Total Costs	$1,215,863	$69,232	$0	$1,285,095	$68,903	$0	$1,284,766	$2,569,861
General Fund	1,098,989	69,232	0	1,168,221	68,903	0	1,167,892	2,336,113
State/Other Special	116,874	0	0	116,874	0	0	116,874	233,748
Federal Special	0	0	0	0	0	0	0	0
Total Funds	$1,215,863	$69,232	$0	$1,285,095	$68,903	$0	$1,284,766	$2,569,861

Performance-Based Budget

Motor Vehicle Division

The Motor Vehicle Division is one of sixteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the motor vehicle division is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Records and Driver Control

The purpose of the Records and Driver Control Bureau is to assure that only qualified drivers may legally operate a motor vehicle upon the public roads of the state.

Goal 1: To regulate driving privileges based upon Montana law, administrative rules, policies and procedures.

Objective 1: To suspend/revoke/cancel driver privileges within acceptable time frames.

Performance Measures:

1) To perform random sampling of suspension/revocation/cancellation files checking that actions are taken with two days of being eligible for action.

2) To perform random sampling of suspension/revocation/cancellation files checking that actions are processed with an error rate of less than 2 percent per fiscal year.

Objective 2: To restore privilege to drive within acceptable time from verification of eligibility

Performance Measures:

1) To randomly check comparing monthly restoration printouts and active driver control files that actions are taken within one day of eligibility.

2) To perform random sampling of restoration actions verifying that actions processed with an error rate of less than 2 percent per fiscal year.

Objective 3: To provide certified records reports to authorized requestors with two working days.

Performance Measures:

1) To randomly sample requests received and verify that no certified record reports were delivered to unauthorized individuals/entities.

2) To review random sampling of certified records requests comparing date received and date completed to verify that MVD request was processed with two working days.

Goal 2: To create and maintain accessible records pertaining to individual driver histories.

Objective 1: To migrate all driver license files to computerized/imaged records by July, 2002.

Performance Measures:

1) To image 100 percent of all new driver licensing applications received each year which will be verified by a random sampling to confirm documents indexed to proper file in a clear and legible format with less than a one percent error rate.

2) To annually image 20 percent of driver licensing files existing on commencement of conversion verified by a random sampling to confirm documents indexed to proper file in a clear and legible formate with less than a one percent error rate.

Objective 2: To maintain the automated driver conviction history system processing conviction information within two days of receipt.

Performance Measures:

1) To randomly sample conviction reports verifying that information received is entered into the automated system within two days.

2) To review random sampling of conviction reports checking that information is entered in the automated system with an error rate of less than 2 percent per fiscal year.

Goal 3: To provide driver licensing information accurately and in a timely manner.

Objective 1: To provide accurate information to telephone, electronic or personal inquiries completing 85 percent of responses within the initial contact.

Performance Measures:

1) To provide accurate information to personal inquiries within 15 minutes 90 percent of the time.

2) To provide accurate information to telephone and electronic inquiries with one-half hour percent of the time.

3) To provide accurate information to mail inquiries within two working days 95 percent of the time.

Objective 2: To provide requested motor vehicle records (MVD) within a reasonable time frame, not to exceed one day.

Performance Measure:

1) To monitor response by performing random comparisons of documented response dates to recorded requests.

LFD Issue **- The objective of performance-based budgeting is to tie changes in the amount of money a program receives to measurable changes in program performance. In this way, should budget makers want to change performance levels, they can know what such changes will cost and adjust future budgets accordingly. The Motor Vehicle Division program performance targets give no indication of how changes in budget levels would affect performance results and makes no attempt to tie results to funding amounts. The performance targets give the legislature no way to determine how to adjust the program budget in the future.**

The performance measures provide measurable targets against which to assess performance. However, they do not provide benchmarks against which to measure progress.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4100 12
Department of Justice
Motor Vehicle Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	572,896	580,871
02		Inflation/Deflation	(293,304)	(411,569)
03		Fixed Costs	74,139	82,217
		Total Statewide Adjustments	$353,731	$251,519
Significant Present Law Adjustments				
04	79197	Mvd Non-Disc Software	0	0
05	79199	Comput/Printer/Soft - Mvd-Nond	0	0
06	91121	Annualize New Positions - PI	96,718	96,428
07	91122	Equipment-Mvd-Nondis	25,712	(24,388)
08	91123	Local Area Network Support	(1,674)	(1,874)
09	91124	Facility Maintenance	41,881	47,256
10	91125	Motor Pool Leasing	40,328	69,032
11	91126	Maintenance Contracts	11,509	7,551
12	91127	Computer Lease/Purchase Reduction	(139,211)	(143,596)
13	91666	Legislative Contract Authority	0	0
		Total Significant PL Adjustments	$75,263	$50,409
Other Base Adjustments			$45,307	$48,981
		Grand Total Present Law Adjustments	$474,301	$350,909

LFD Comment **- The 1995 legislature appropriated $1.1 million from the highway special revenue account each year of the 1997 biennium. This amount was the level expended in fiscal 1994. In the Motor Vehicle Division, the Executive Budget proposes to reduce the appropriation from the highway special revenue account by over $700,000 each year of the 1999 biennium. Therefore, all the following present law adjustments are funded with general fund in the**

Executive Budget.

6) Annualize New Positions - The 1995 legislature authorized the addition of 4.00 FTE to help reduce the backlog and long lines in the driver licensing stations statewide. Also, the 1995 legislature passed HB 307 creating specialized title-only services for auto dealers. This bill was effective January 1, 1996, and added 3.00 FTE to provide these services. Because of the January 1, 1996, effective date of HB 307 and the delayed hire of the new positions, operating costs need to be annualized in order to continue these services. These increases are in the areas of computer processing, printing, microfilm and data processing supplies, postage and communication costs, and travel expenses.

7) Equipment - Of the requested equipment budget, there is $138,580 to continue the five-year lease/purchase for the 265 computers and 162 printers purchased for use by the 56 counties. Fiscal 1998 includes $27,000 for a microfilm processor and duplicator to replace equipment located in Deer Lodge that is faulty and leaking hazardous materials. This category also includes funding to continue the on-going replacement of microfilm readers, eye testing equipment, and office equipment reaching the end of its life expectancy.

8) Local Area Network (LAN) Support - The executive recommends increases in operational costs related to LAN support. The division has been moving toward implementation of LANs to increase efficiency. Late in fiscal 1996 the division completed its LAN development in Helena and Deer Lodge. Annualized LAN costs will allow on-going network development and travel costs related to training, technical assistance to field offices, and general LAN support.

9) Facility maintenance - Thirteen of the 15 driver licensing offices leased by the division will be due for renewal during the biennium. Increases occur in negotiated costs per square foot and cost of living increases. Janitorial costs for services in field driver licensing offices increased approximately $6,300 in fiscal 1997. This category also includes reductions in one-time relocations costs for the Title and Registration Bureau in Deer Lodge as well as one time costs for office repair/remodeling.

10) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $71,608 in fiscal 1998 for 16 sedans and $48,000 in fiscal 1999 for one pickup and 16 sedans. In addition, there is $68,198 in fiscal 1999 to continue the first year vehicles. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $31,280 in fiscal 1998 and $47,166 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles

11) Maintenance Contracts - This budget recommendations continues maintenance for county treasurer computers which are coming off an extended warranty contract. Also included is maintenance for the network server due to warranty expiration.

12) Field Operations Bureau Computer Lease/Purchase - Reductions are due to lease purchase contracts for computers and printers used in the Billings driver licensing offices expiring in December 1997.

4110 12
Department of Justice **Motor Vehicle Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Equip Department - File Imagi		88,850		88,850				
02 Mvd Computer Program Study		150,000		150,000				
03 Equip - Mvd-Disc		40,000		40,000				
04 Funding Switch - Driver Servic		713,357	(713,357)			765,164	(765,164)	
05 Mvd-Laptops		10,000		10,000				
Total For New Proposals		$1,002,207	($713,357)	$288,850		$765,164	($765,164)	

Executive New Proposals

1) File Imaging - The department undertook a successful imaging project this biennium in the Records and Driver Control Bureau of the Motor Vehicle Division. Other bureaus and divisions within the department are under similar strain of high-volume records. The Title and Registration Bureau in Deer Lodge and the Gambling Control Division are but two examples of areas within the department where imaging would improve the efficiency and address the incredible volume of paper which must be filed and managed. This request would allow the department to extend the benefits of imaging to the next priority area within the department.

2) MVD Computer Program Study - The Motor Vehicle Division operates two computer applications that manage vehicle title and registration and driver licensing functions. Both of these computer applications have grown from smaller, simpler systems into large, complex mainframe systems. To illustrate the complexity of these systems, consider that the title and registration system consists of approximately 400 interrelated COBOL programs and includes modules and tables with approximately 44 million records in the database. The driver control system, while smaller, is similarly complex. Both programs provide statewide service and have interstate connections to other complex databases.

Both of these systems have evolved over a decade and have been modified and changed by many different programmers -- one fix or change at a time -- often just to fix a problem, to add a feature, or to make a change that was mandated by a new law. This series of changes has made the applications more complex, sometimes less efficient, and often more difficult to understand and support by technical staff. Since the systems have been designed separately, they do not share common elements, such as name and address. Often changes made in one program will adversely affect or impact other programs or subsystems within the application.

Both applications are at a point where they need to be redesigned for efficiency and ease of support and to coordinate the databases. But more importantly, these systems need to be redesigned to take advantage of potential new technologies to provide more user-friendly, cost-effective ways of providing these services and information to Montanans.

In order to accomplish a modernization of these title, registration, and driver services, the Motor Vehicle Division, in cooperation with local governments, needs to assess through a feasibility study the current and future needs for these services and to design modern automated processes to take advantage of new technologies and better ways of providing these services.

LFD Comment - **The legislature should be aware that once the feasibility study is completed, the next step will probably be a major financial proposal to the 1999 legislature to undertake the redesigning and**

programming of these very large and complex systems.

3) Bar Coding Equipment/Software - The cost of mailing titles, liens, and motor vehicle renewal notices, as well as normal business communications, will increase considerably when the U.S. Postal Service classification reform proposal is approved. The Postal Service estimates that Title and Registration Bureau's increased postage costs for continued operation without bar coding would be in excess of $60,000 annually; however, the bureau could reduce its annual postage expense by approximately $20,000 if the outgoing mail were presorted and bar coded. Equipment and software to bar code is estimated to cost $40,000.

4) Funding Switch - Driver Services - The funding switch being recommended in this division also impacts the funding switch recommended for the Highway Patrol Division. The Highway Patrol Division was authorized federal authority by the 1995 legislature to support new patrol officers, only to have the federal funds eliminated. The executive recommends switching $213,357 in fiscal 1998 and $265,164 in fiscal 1999 of federal authority to state special highways special revenue. In order to make the highways special revenue funds available for the Highway Patrol Division, an equal amount of highways special revenue in the Driver Services budget is being recommended for replacement with general fund. An additional $500,000 per year of highways special revenue, also in the Driver Services budget, is being recommended for replacement with general fund. This recommendation will assist the Highway Patrol Division in meeting its funding and operating needs.

LFD Issue **- In 1995, the executive made a proposal to the legislature to replace all highway special revenue appropriated to support the Motor Vehicle Division with general fund. The 1995 legislature rejected this proposal and continued to appropriate highway special revenue funds to this program at the historic level of approximately $1.1 million per year. Because of a declining fund balance in the highway special revenue account, the executive is now proposing that highway special revenue funds of $713,357 in fiscal 1998 and $765,164 in fiscal 1999 be replaced with general fund. For further information on the status of the highway special revenue account, see the "Agency Issues" section of the Montana Department of Transportation. For information on the Executive Budget proposal to switch the funding source for the additional patrol officers, see the LFD Issue in the New Proposals Section of the Highway Patrol Program.**

5) Laptops for Regional Managers (4) - To increase the productivity and efficiency of the division four Field Operations Bureau regional managers who are charged with supervising, monitoring, auditing, and reporting responsibilities of their regional districts, including driver licensing programs, special investigations, vin inspections, third-party testing programs, and cooperative driver training programs, it is essential to provide each of the regional managers with a laptop computer to assist in documentation, reporting and statistical analysis.

4100 03 Department of Justice Program Proposed Budget					Highway Patrol Division			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	277.05	0.00	2.25	279.30	0.00	3.00	280 05	279.30
Personal Services	10,156,337	668,818	47,634	10,872,789	703,999	63,511	10,923,847	21,796,636
Operating Expenses	3,199,925	163,309	45,680	3,408,914	189,203	45,680	3,434,808	6,843,722
Equipment	1,311,668	282,318	0	1,593,986	404,866	0	1,716,534	3,310,520
Total Costs	$14,667,930	$1,114,445	$93,314	$15,875,689	$1,298,068	$109,191	$16,075,189	$31,950,878
General Fund	0	0	0	0	0	0	0	0
State/Other Special	13,902,690	1,160,344	306,671	15,369,705	1,308,990	374,355	15,586,035	30,955,740
Federal Special	765,240	(45,899)	(213,357)	505,984	(10,922)	(265,164)	489,154	995,138
Total Funds	$14,667,930	$1,114,445	$93,314	$15,875,689	$1,298,068	$109,191	$16,075,189	$31,950,878

Program Description

The Highway Patrol Division (HPD) is responsible for patrolling the highways of Montana, enforcing traffic laws, and investigating traffic accidents. The patrol gives assistance and information to motorists, first-aid to those injured in traffic accidents, transports blood and medical supplies in emergency situations, and assists other law enforcement agencies when requested. The patrol provides 24-hour, seven-day-a-week communication and radio dispatch for the Highway Patrol and other state agencies. The Motor Carrier Safety Assistance program (MCSAP) attempts to reduce commercial motor vehicle accidents in the state by participating in the Commercial Vehicle Safety Alliance (CVSA) and its North American Driver/Vehicle Inspection program in all levels of inspections as well as safety review audits.

Funding

The Highway Patrol Division is funded primarily by highways state special revenue funds. Since these funds are also the primary source of state funds for highway construction and maintenance, funds used for highway patrol operations reduce funds available for the state transportation program.

The MCSAP program is 85 percent funded by federal funds from the U.S. Department of Transportation, with a 15 percent state match. The actual match requirement is 20 percent. However, utilizing highway patrol officers to conduct truck inspections for the federal government is used to provide 5 percent of the match required, with the remainder from highways special revenue funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4110 13
Department of Justice
Highway Patrol Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	668,818	703,999
02		Inflation/Deflation	20,654	41,031
03		Fixed Costs	1,433	16,605
		Total Statewide Adjustments	$690,905	$761,635
Significant Present Law Adjustments				
04	79199	Computers/Printers - Nondis	0	0
05	91131	Facility Maintenance - Pl	110,957	112,755
06	91132	Vehicle Operations	0	0
07	91133	General Operations - Pl	0	0
08	91134	Equipment-Mhp-Nondis	282,318	404,866
09	91135	Field Operations Support - Pl	0	0
10	91136	Mcsap - Pl	22,099	17,315
11	91666	Legislative Contract Authority	0	0
		Total Significant PL Adjustments	$415,374	$534,936
Other Base Adjustments			$8,166	$1,497
		Grand Total Present Law Adjustments	$1,114,445	$1,298,068

5) Facility Maintenance - During fiscal 1996 and into fiscal 1997, the division continued its effort to move regional field offices and headquarters into adequate and consolidated space. The result is increased rental, janitorial, and utility costs. Additionally, rental increases occur for inflation contained in other field office leases and radio site leases

LFD Issue **- In March of 1996, the MHP moved its headquarters into a new office building and signed a ten year lease. As a result of this move, an increase in present law expenditures of over $60,000 per year for the Helena MHP headquarters (included in the above total) is being requested for the 1999 biennium. Because of the lease agreement, the legislature is expected to authorize this budget increase for rent after the move has taken place. Given the magnitude of this long term financial commitment, the DOJ could have sought budgetary approval for rental of new space from the 1995 legislature as a new proposal.**

8) Equipment MHP Replacement - Equipment expenditures totaled $1,309,539 in fiscal 1996 and the recommended budget is $1,593,986 in fiscal 1998 and $1,716,534 in fiscal 1999. The MHP equipment request includes patrol cars, light bars, radars, handheld radios, and computers. The MHP determined a useable life for these items and replaces a set amount each year to keep replacement costs down. One third or 65 patrol cars are replaced each year. Light bars, radars, and hand held radios are replaced at between 10 to 25 per year. The MCSAP vans are replaced at 2 per year on a four-year replacement cycle. Five computers are replaced each year and are on a ten-year replacement cycle.

LFD Comment **- The agency has applied an inflation rate to the cost of replacement vehicles of 9 percent per year. In fiscal 1997 the agency expended $20,861 for a new vehicle. MHP is projecting the cost of new vehicle at $22,738 in fiscal 1998 and $24,784 in fiscal 1999.**

10) MCSAP - PL - Increases recommended for the MCSAP program included $1,475 each year for specialized clothing for those officers assisting with MCSAP activities, $5,000 in fiscal 1998 for updated traffic enforcement lighting, $3,000 each year for travel, $7,294 for rent each year for the consolidated facility in Helena, $850 per year for a share of the Billings MHP office rent, and an increase of $4,480 in fiscal 1998 and $4,696 in fiscal 1999 for federal indirects.

Other Base Adjustments - Numerous other increases and decreases that imt pact the Highway Patrol 1999 biennium budget request.

4110 13
Department of Justice **Highway Patrol Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Funding Switch - Mhp								
02 Missoula Rent Increase			45,680	45,680			45,680	45,680
03 Operators	2.25		47,634	47,634	3.00		63,511	63,511
Total For New Proposals	2.25		$93,314	$93,314	3.00		$109,191	$109,191

Executive New Proposals

1) Officer Funding Switch - The Department of Justice Highway Patrol Division is seeking a funding switch for the seven (7) new permanent officer positions approved by the 1995 legislature. The federal funds authorized to fund these positions were eliminated due to federal legislation regarding the "helmet law." The department was able to locate temporary funding sources during the 1997 biennium to maintain this critical law enforcement activity mandated by the last legislature.

The 1995 legislature approved $40,662 per officer ($35,215 personal services, $5,447 operating expenses). Maintaining these cost figures for the 1999 biennium, the annual cost of funding the seven positions would be $284,634. Anticipated federal grant funds will partially offset the impact to the state special revenue fund by $71,277 in fiscal 1998 and $19,470 in fiscal 1999. The requested level of funding needed from state special revenue is $213,357 in fiscal 1998 and $265,164 in fiscal 1999

	FY98	FY99
Federal authority	$(213,357)	$(265,164)
State special revenue	213,357	265,164
Total	$ -0-	$ -0-

LFD Issue - **As described above, the executive is proposing that the 7.0 FTE established with federal funds now be retained with state highways special revenue funds. In order to fund these positions from the highway special revenue account without increasing the total department use of the highway funds, the Executive Budget replaces highway funds in the Motor Vehicle Registration Division with general fund. Therefore, the end result is that the general fund is being increased in the agency to fund these positions.**

LFD Issue - **One of impacts of tourism in Montana is an increase in the number of out-of-state vehicles using Montana's roads and highways and a corresponding increase in the demands on the officers of the MHP. Since this is an impact of tourism, the legislature may want to consider the use of the Lodging Facility Use Tax to help support the duties of the MHP. The Legislative Finance Committee (LFC) will propose to the 1997 legislature that the Lodging Facility Use tax (a.k.a. bed tax) be de-earmarked and that the revenues of approximately $9 million per year be deposited instead to the general fund. If the legislature adopts the LFC recommendation, and if the legislature adopts this MHP proposal, the funding could be appropriated from the general fund, as revenues to the general fund would increase as a result of the de-earmarking action. For further information on alternative uses of the Lodging Facility Use Tax, see the LFD issue under the Travel Promotion Bureau of the Department of Commerce.**

2) Missoula Office Rent - The Montana Highway Patrol District #1 office is located in Missoula. The district office houses the district administration (3.00 FTE), two detachments (24.00 FTE), and the communications center (14.00 FTE) for a total of 41.00 FTE.

The Montana Highway Patrol (MHP) currently rents a 1,500-square-foot building from the Montana Department of Transportation and pays an annual rental fee of $1,500. On the average, 21 employees operate in this space, which equates to 71.42 square feet per employee. It is much less when common areas such as hallway space, restroom, janitorial space, and storage are subtracted from the total. Using 180 square feet per employee, as determined by the Department of Administration, 3,780 square feet are necessary for the operation and communication requirements for the district office. Another 700 square feet are necessary for the Missoula-based Highway Patrol radio repair and maintenance shop. A total of 4,480 square feet are necessary to consolidate the District #1 operations in Missoula.

According to realty representatives in Missoula, rental space in Missoula will cost approximately $11 per square foot. At this rate, the increase in cost for office space would be $45,680 per year (3780 x $11 + 700 x $8 = $47,180 - $1500 = $45,680).

	FY98	FY99
Operating Expenses	$ 45,680	$ 45,680

3) Communication System Operators - The Montana Highway Patrol is requesting 3.00 FTE (one per communication center) to provide critically-needed shift coverage in the patrol's three communication centers. The FTE would be grade 9 at $21,825 per year for a total of $65,475.

The Montana Highway Patrol maintains three 24-hour, seven-days-a-week dispatch centers in Helena, Billings, and Missoula. These centers are the primary contact point for the people requesting the services of the patrol. The communication centers provide dispatch services to over 250 Department of Justice employees in addition to the following agencies: Fish, Wildlife, and Parks; Livestock (inspectors); Disaster and Emergency Services; Fire Marshal; National Guard; Public Service Commission (inspectors); and Department of Transportation (Motor Carrier Services).

Montana is experiencing growth in both its population, as seen in the number of registered vehicles and licensed drivers, and its tourism industry, as seen in the number of visitors and the number of vehicle miles traveled each year. The Highway Patrol communications centers, which handle calls for service and assistance and reports of accidents and other incidents, are affected by this growth . Since 1991, they have experienced a 138 percent increase in radio transmissions, a 40 percent increase in the number of telephone calls received, and a 323 percent increase in the number of Criminal Justice Information Network checks that have to be run.

There are currently 29.05 FTE divided among the three centers. This level barely provides 24-hour coverage. The Montana Highway Patrol spent more than $36,000 on part-time and on-call operators to cover vacant shifts due to sick leave, annual leave, emergencies, and training in fiscal 1995. The shortage of personnel results in minimal dispatch coverage and a high-pressure environment for the communications operators. In addition, full-time operators are often asked to work additional shifts due to vacations, sick leave, and vacancies. These difficult working conditions have resulted in a high level of turnover due to "burnout."

LFD Comment **- The legislature may wish to reduce the part-time and on call operator budget if this new proposal is funded.**

Requested Language

The department is authorized to transfer the retirement contributions provided in sections 19-6-404 and 61-5-121(1)(a) in fiscal years 1998 and 1999 from the highway patrol retirement clearing account in the state special revenue fund to the Montana highway patrol officers' retirement pension trust fund. An appropriation must be established each year in the amount required to be transferred up to the amount of $700,000.

4110 18

Department of Justice — **Law Enforcement Services Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	62.50	0.00	5.25	67.75	0.00	7.00	69.50	67.75
Personal Services	1,904,839	412,149	147,931	2,464,919	419,899	197,237	2,521,975	4,986,894
Operating Expenses	927,865	264,715	313,619	1,506,199	277,377	313,619	1,518,861	3,025,060
Equipment	234,952	(94,977)	2,100	142,075	(104,017)	2,100	133,035	275,110
Debt Service	189,895	(189,542)	0	353	(189,542)	0	353	706
Total Costs	$3,257,551	$392,345	$463,650	$4,113,546	$403,717	$512,956	$4,174,224	$8,287,770
General Fund	1,917,090	628,699	17,056	2,562,845	631,325	22,743	2,571,158	5,134,003
State/Other Special	399,974	(121,508)	89,100	367,566	(132,530)	95,673	363,117	730,683
Federal Special	940,487	(114,846)	357,494	1,183,135	(95,078)	394,541	1,239,949	2,423,085
Total Funds	$3,257,551	$392,345	$463,650	$4,113,546	$403,717	$512,956	$4,174,224	$8,287,770

Program Description

The Law Enforcement Services Division includes the administration, management, and coordination of a broad spectrum of criminal investigative services performed by the Criminal Investigation Bureau, Identification Bureau, and Fire Prevention and Investigation Bureau. Criminal investigators conduct criminal investigations of homicide, fraud, robbery, assault, corruption, arson, organized crime, dangerous drug activity, and other felony crimes. The program activity includes conducting criminal investigations of state agencies and providing investigative training to law enforcement officers. The division emphasizes providing adequate specialized drug enforcement resources to address drug abuse and drug trafficking in Montana. The division also has specialized criminal investigation units for the following fraud investigation: 1) workers' compensation; 2) public assistance; and 3) Medicaid (enacted by the 1995 legislature by SB 293). The Fire Prevention and Investigation Bureau is responsible for safeguarding life and property from fire, explosion, and arson through investigative, inspection, and fire code interpretation and enforcement functions. The Law Enforcement Services Division Program operates under both state and federal mandates. The licensure portion of the Fire Investigative Bureau was moved by the 1995 legislature in HB 68 to the Department of Commerce.

Funding

The Law Enforcement Division is composed of three operational bureaus. The Fire Prevention and Investigation Bureau is funded primarily with general fund. Fire protection and permitting state special revenue funds support the balance of the bureau budget. The Identification Bureau is 100 percent general fund supported. The Criminal Investigation Bureau is primarily supported with general fund. General fund is also used as the 50 percent match for the federal funds which support the welfare fraud investigative activities. The workers' compensation state special revenue account supports the Workers' Compensation Fraud Investigation and Prosecution Unit.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4110 18
Department of Justice
Law Enforcement Services Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	412,149	419,899
02		Inflation/Deflation	278	2,229
03		Fixed Costs	43,477	51,812
		Total Statewide Adjustments	$455,904	$473,940
Significant Present Law Adjustments				
04	79197	Les Non-Disc Software	0	0
05	79199	Comput/Soft/Lans - Lesd - Nond	0	0
06	91181	Fire Prevention - PI	18,164	18,332
07	91182	Id Bureau - PI	9,291	9,291
08	91183	Ci Bureau - PI	(909)	306
09	91184	Equipment - Lesd Nondisc	(94,977)	(104,017)
10	91185	Medicaid Fraud - PI	30,106	30,357
11	91186	Overtime -PI	0	0
12	91187	Narcotics Investigation - PI	(28,932)	(27,094)
13	91666	Legislative Contract Authority	0	0
		Total Significant PL Adjustments	($67,257)	($72,825)
Other Base Adjustments			$3,698	$2,602
		Grand Total Present Law Adjustments	$392,345	$403,717

LFD Issue **- The total present law increase for the Law Enforcement Services Division is $392,345 in fiscal 1998 and $403,727 in fiscal 1999. However, the general fund present law increase is $628,699 in fiscal 1998 and $631,325 in fiscal 1999. Therefore, the Executive Budget is replacing funding sources which do not continue into the next biennium with general fund. Federal funds are reduced by $114,845 in fiscal 1998 and $95,078 in fiscal 1999, and state special is reduced by $121,505 in fiscal 1998 and $132,530 in fiscal 1999. The legislature may want to require the agency to: 1) identify what functions that had been funded from non-general fund appropriations in fiscal 1996 are being continued with general fund; and 2) to specifically justify the continuation of these functions to the legislature.**

6) Fire Prevention and Investigation Bureau - Increases of $6,735 are recommended for consulting and professional services necessary to address engineering and other technical concerns related to bulk petroleum plants and building design issues which exceed staff capabilities and are bureau requirements by law. Funds for two copiers in two rural regional offices where none exist are necessary and will cost $4,848 per year. The bureau moved from the Scott Hart building to the basement of the old Livestock building in April, 1996, which resulted in an increase in rent of $4,984 per year.

7) Identification Bureau - Rent charges increase by $5,035 per year due to reallocation of floor space in the Scott Hart building and for the acquisition of additional space for expansion of criminal history files. The ID Bureau share of the increased flat fee charged by ISD for the lease/maintenance of the armory is $3,489 per year.

8) Criminal Investigation Bureau - This budget maintains the fiscal 1996 expenditure base.

9) Replacement Equipment - Fiscal 1996 equipment expenditures totaled $234,952. The recommended budget is $139,975 for fiscal 1998 and $130,935 for fiscal 1999. This is a net reduction of $94,977 in fiscal 1998 and $104,017 in fiscal 1999. Recommended equipment purchases for the division include replacement of seven high-mileage vehicles per year, the purchase of gas detectors and respirators for fire marshals to meet OSHA requirements, and routine computer replacement.

10) Medicaid Fraud - Montana's Medicaid Fraud Control Unit was created by the 1995 legislature. The division then awaited budget and staffing approval by the U.S. Department of Health, Office of Inspector General. Approval was obtained

in November, 1995, and hiring of the 7.00 FTE continued into late fiscal 1996. Of the seven staff, six will be traveling extensively throughout the state on fraud cases. This recommendation annualizes the costs of operations for this fraud unit.

LFD Comment - **The legislature may wish to receive a report on the results of the first several months of operation of the unit before taking action on this adjustment.**

12) Narcotics Investigations - One-time costs of $33,000 are reduced from the base. Proposed increases to the base include $6,393 per year to replace base expenditures in travel and training which were charged to a federal grant on a one-time only basis.

Other Base Adjustment - Numerous increases and decreases that impact the recommended budget.

4110 18
Department of Justice **Law Enforcement Services Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Support Staff - Lesd	0.75	17,056		17,056	1.00	22,743		22,743
02 Id Bureau Compliance Staff-Ba	2.25		90,193	90,193	3.00		107,523	107,523
03 Sw Drug Task Force - Ba	2.25		356,401	356,401	3.00		382,690	382,690
Total For New Proposals	5.25	$17,056	$446,594	$463,650	7.00	$22,743	$490,213	$512,956

Executive New Proposals

1) Support Staff - LESD - One administrative support staff position is being recommended due to increased office management responsibilities and an increase in transcription of investigative tapes related to enforcement activities. The support staff will assist the Criminal Investigations Bureau, Narcotics Investigation Bureau, and the Fire and Prevention and Investigation Bureau.

2) ID Bureau Compliance Staff-BA - The Identification Bureau is the central repository that collects arrest and disposition information, verifies identification, enters data into the Automated Fingerprint Identification System (AFIS) and the criminal history computerized database and disseminates information to law enforcement, courts, and the public throughout the nation.

Late in fiscal 1996, the Law Enforcement Services Division was awarded a National Criminal History Records Improvement Grant (NCHIP). This grant addressed the compliance of criminal history arrest and disposition information submitted by law enforcement and the courts, quality control of information in our automated system and efforts to move toward an electronic instant check system. Part of the three year program allows Montana to hire 3.00 FTE to audit criminal records accuracy and submission compliance, provide compliance training and assistance to local law enforcement and courts, update our files to reach a criminal history record compliance level near 100 percent and to convert criminal file information from the present manual review system to a machine readable system that would allow for instant check capabilities.

NCHIP is a three year program with funding provided for fiscal 1996, fiscal 1997, fiscal 1998, and into fiscal 1999. This recommendation continues funding of this effort with grant funds into the 1999 biennium.

3) Southwest Montana Drug Task Force BA - The Montana Board of Crime Control (MBCC) awarded a grant to the Law Enforcement Services Division for the period of July 1, 1996, to June 30, 1997. The grant provides funding for a seven agency drug enforcement task force, which was formed for the purpose of addressing dangerous drug problems in southwest Montana. The seven agencies are Madison County, Jefferson County, Butte/Silver Bow County, Powell County, Anaconda/Deer Lodge County, Beaverhead County, and the Montana Narcotics Investigation Bureau. The day-to-day operation of this unit is monitored by the Montana Narcotics Investigation Bureau, the operational policies/procedures and objectives have been established by Southwest Montana Task Force Board. This request continues this grant and related effort into the 1999 biennium.

The grant provides funding of three positions, an agent supervisor, a criminal investigator, and a secretary. In addition to the three state positions, two local detectives are funded by the grant.

Elected Officials New Proposal

The following proposal is being requested by the Attorney General, and is not included in the Executive Budget.

Workers' Compensation Fraud Prosecution Fund Switch - The Workers' Compensation Fraud Unit is funded by the State Workers' Compensation Fund. The Attorney General requests that these funds be replaced with general funds. The Attorney General maintains that detecting and prosecuting workers' compensation fraud is a state responsibility and should not solely be the responsibility of the insured. Currently, the State Fund has approximately 45 percent of the workers' compensation coverage business in Montana, yet pays 100 percent of fraud investigation and prosecution costs. The general fund impact of this proposed funding switch is $291,034 in fiscal 1998 and $280,012 in fiscal 1999.

4110 19
Department of Justice — **County Attorney Payroll**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	20.40	0.65	0.00	21.05	0.65	0.00	21.05	21.05
Personal Services	1,346,775	103,716	0	1,450,491	103,716	0	1,450,491	2,900,982
Total Costs	$1,346,775	$103,716	$0	$1,450,491	$103,716	$0	$1,450,491	$2,900,982
General Fund	1,346,775	103,716	0	1,450,491	103,716	0	1,450,491	2,900,982
Total Funds	$1,346,775	$103,716	$0	$1,450,491	$103,716	$0	$1,450,491	$2,900,982

Program Description

The County Attorney Payroll program pays one-half the salary and benefits of the 56 county attorneys from the state general fund, as required by 7-4-2502, MCA.

Funding

The County Attorney Payroll program is supported entirely with general fund.

Executive Present Law

4110 19
Department of Justice — Present Law Adjustments/Issues
County Attorney Payroll

Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	103,716	103,716
02	Inflation/Deflation	0	0
03	FixedCosts	0	0
	Total Statewide Adjustments	$103,716	$103,716
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	$103,716	$103,716

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1a) Change in Status - State law requires county commissioners to notify the Department of Justice if the status of the county attorney will be changed in the coming biennium. Hill, Madison, Mineral, Custer, and Pondera counties have given such notification. The net impact of these changes is an increase of 0.65 FTE and an increase in salaries and benefits of $53,358 in fiscal 1998 and $53,186 in fiscal 1999.

1b) Cost of Living Increase - Section 7-4-2503, MCA, establishes the calculation for county attorney salary levels. This section allows counties to grant cost-of-living increases to county attorneys up to 100 percent of the previous year's Consumer Price Index (CPI). The CPI for fiscal 1996 was 2.5 percent and is 2.8 percent for fiscal 1997. During the 1997 biennium, all but ten county attorneys received a CPI increase. It is assumed all county attorneys will receive an annual increase of 2.8 percent during the 1999 biennium. The calculation of this CPI increase includes the change in salary status of the five county attorneys mentioned in number 1a) above.

LFD Issue - The executive includes $50,358 in fiscal 1998 and $50,530 in fiscal 1999, reflecting the 2.8 percent cost of living adjustment for fiscal 1997 as a present law increase over the base year (fiscal 1996) for the 1999 biennium. However, the Executive Budget does not include a cost of living increase for fiscal years 1998 and 1999 as required in statute and as indicated in the narrative. Inclusion of this further cost of living increase would add $38,560 in fiscal 1998 and $78,200 in fiscal 1999.

4110 22
Department of Justice — **Law Enforcement Academy Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	10.50	0.00	0.00	10.50	0.00	0.00	10.50	10.50
Personal Services	401,668	(17,475)	0	384,193	(17,475)	0	384,193	768,386
Operating Expenses	403,030	56,055	17,000	476,085	59,249	0	462,279	938,364
Equipment	16,430	(15)	0	16,415	(15)	30,000	46,415	62,830
Debt Service	4,321	68,976	0	73,297	68,976	0	73,297	146,594
Total Costs	$825,449	$107,541	$17,000	$949,990	$110,735	$30,000	$966,184	$1,916,174
General Fund	825,449	107,541	17,000	949,990	110,735	30,000	966,184	1,916,174
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	0	0	0	0	0	0	0	0
Total Funds	$825,449	$107,541	$17,000	$949,990	$110,735	$30,000	$966,184	$1,916,174

Program Description

The Law Enforcement Academy Division provides a professional education and training program in criminal justice for Montana law enforcement officers and other criminal justice personnel. The academy provides an annual curriculum specifically designed to meet the needs of the adult and juvenile criminal justice systems.

Funding

The Law Enforcement Academy is funded primarily with general fund, and some federal grant monies. The academy charges tuition for certain classes, particularly specialized courses. All tuition fees are deposited in the general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5) Training New Officers - Growth within Montana communities has led to more police officers being hired by local agencies. The ten-week basic training course is a requirement for new officers. Currently there is a waiting list and it is growing. To address the basic training needs of local law enforcement, it is recommended that four additional training slots

4110 22
Department of Justice — Present Law Adjustments/Issues
Law Enforcement Academy Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(17,475)	(17,475)
02		Inflation/Deflation	3,564	5,098
03		Fixed Costs	19,302	20,416
		Total Statewide Adjustments	$5,391	$8,039
Significant Present Law Adjustments				
04	79199	Computer/Software-Lead-Nond	0	0
05	91221	Training New Officers	31,441	31,603
06	91222	Equipment-Lead-Nondis	(15)	(15)
07	91223	Old Campus Reductions	(82,042)	(82,042)
08	91224	Paying Back Renovation Loans	73,870	73,870
09	91225	Increased Cost At New Campus	78,896	79,280
10	91666	Legislative Contract Authority	0	0
		Total Significant PL Adjustments	$102,150	$102,696
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$107,541	$110,735

be added to each of the four annual basic training courses. Projected increases over the fiscal 1996 base of $31,441 in fiscal 1998 and $31,603 in fiscal 1999 will be partially offset by $12,800 in tuition.

7) Old Campus Reductions - By vacating the mobile homes in Bozeman and occupying the new campus at Mountain View School, costs for maintaining the mobile homes and leasing space off-campus have been reduced. Also reduced are one-time costs related to the actual move of facilities and staff from Bozeman to Helena. The annual reductions of $82,042 partially offset renovation and operating costs for the new, permanent campus.

8) Paying Back Renovation Loans - In order to partially fund the renovations and remodeling necessary to convert Mountain View School into an adequate law enforcement training school, the legislature entered into a cooperative partnership with Lewis and Clark County. A $500,000 loan was obtained from the county to pay for part of the cost of construction. These funds will be used to pay back this loan. In addition, energy conservation measures enacted during remodeling will reduce utility bills by a percentage that is greater than the payback now required. An estimated ten year schedule of $65,870 payments are projected. Energy conservation annual payments will be $8,000.

LFD Comment **- HB 584 passed by the 1995 legislature includes the provision that the Department of Justice will repay the loan from its operating budget over the next 10 years.**

9) Increased Costs at a New Campus - The 1995 legislature approved the permanent move of the Law Enforcement Academy from Bozeman to the vacant campus of Mountain View School. This proposal acknowledges the increased costs of operating the academy at this new facility. These projected costs of $78,896 in fiscal 1998 and $79,280 in fiscal 1999 include utilities, maintenance of buildings and grounds, and other essential operating expenditures.

4100 22
Department of Justice **Law Enforcement Academy Division**
Executive Budget New Proposals

		Fiscal 1998			Fiscal 1999		
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Dare Training		17,000		17,000				
02 Lead Disc Software - Windows						20,000		20,000
03 Equip - Lead - Disc						10,000		10,000
Total For New Proposals		$17,000		$17,000		$30,000		$30,000

Executive New Proposals

1) D.A.R.E. Training - In 1995, the Montana Law Enforcement Academy was designated to be the D.A.R.E. Training Center for the State of Montana, a role formerly filled by a local D.A.R.E. program funded by the Eastern Coal Counties Task Force. For several years, the task force had been receiving an annual federal grant from the Montana Board of Crime Control totaling $19,426 for conducting entry-level D.A.R.E. Officer Training in Montana. As local D.A.R.E. programs have grown throughout the state, the academy has assumed full responsibility for this required two-week training program. Continued federal funding for the course is not assured.

Under this recommendation, the State of Montana would provide funding for one training course every other year. Federal grants will still be sought and will be used to provide advanced training or other recertification and update training during the off year.

LFD Issue - **The legislature may wish to include language that the department will diligently seek all federal sources available for this purpose and will reduce the general fund appropriation by the amount of any federal funds received.**

2) Windows Software - By fiscal 1999, it will be necessary to upgrade the academy computer operating system to a Windows environment. There is $20,000 recommended in fiscal 1999.

3) File Server - There is $10,000 in fiscal 1999 recommended to purchase a file server. The Computer Services and Planning Division has recommended that in order to maintain daily operations and manage workload increases, the academy will need a file server.

4110 28
Department of Justice — **Central Services Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	353,054	55,874	0	408,928	55,957	0	409,011	817,939
Operating Expenses	112,863	558	0	113,421	(50,144)	0	62,719	176,140
Equipment	664	6,336	0	7,000	6,336	0	7,000	14,000
Total Costs	$466,581	$62,768	$0	$529,349	$12,149	$0	$478,730	$1,008,079
General Fund	167,483	65,431	0	232,914	43,158	0	210,641	443,555
State/Other Special	289,961	(4,113)	0	285,848	(31,447)	0	258,514	544,363
Federal Special	0	0	0	0	0	0	0	0
Proprietary	9,137	1,450	0	10,587	438	0	9,575	20,162
Total Funds	$466,581	$62,768	$0	$529,349	$12,149	$0	$478,730	$1,008,079

Program Description

The Central Services Division provides the administrative, personnel, budgetary, accounting, and fiscal support for the Department of Justice. The program also administers the County Attorney Payroll and Transportation of Prisoners program expenditures.

Funding

The Central Services Division operations are supported by a direct allocation from the four major funds that support the Department of Justice in proportion to their total budgeted costs. Funding for the division's present law operations in the 1997 biennium includes: 1) general fund of $232,914 in fiscal 1998 and $210,641 in fiscal 1999, or 44 percent; 2) gambling license fees state special revenue of $31,761 in fiscal 1998 and $28,724 in fiscal 1999, or 6 percent; 3) highways special revenue of $254,088 in fiscal 1998 and $229,790 in fiscal 1999, or 48 percent; and 4) proprietary funds of $10,857 in fiscal 1996 and $9,575 in fiscal 1997, or 2 percent, from the agency legal services proprietary account.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4110 28
Department of Justice
Central Services Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	57,221	57,304
02		Inflation/Deflation	(3,462)	(4,694)
03		Fixed Costs	6,916	(42,054)
Total Statewide Adjustments			$60,675	$10,556
Significant Present Law Adjustments				
04	79197	Csd Non-Disc Software	0	0
05	79199	Equipment- Csd - Non Disc	0	0
06	91281	Operating Reductions - Pl	(4,943)	(4,943)
07	91282	In-House Training - Pl	700	200
08	91283	Equipment Replacement - Pl	6,336	6,336
Total Significant PL Adjustments			$2,093	$1,593
Other Base Adjustments			$0	$0
Grand Total Present Law Adjustments			$62,768	$12,149

4) Operating Reductions - The recommended reductions of $4,943 each year of the biennium reflect one-time costs associated with relocating the Centralized Services Division to the Scott Hart Building.

5) In-House Training - Training is provided throughout the Department of Justice as a cost effective way to meet common training needs such as sexual harassment prevention, discipline handling, and performance appraisals. This recommended proposal provides $200 each year to purchase a video and $500 in fiscal 1998 for a TV/VCR combination.

3) Equipment Replacement - This recommendation would allow for the replacement of two computers each year and related software.

4110 29
Department of Justice
Program Proposed Budget

Computer Service & Planning Division

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	27.00	0.00	0.00	27.00	0.00	0.00	27.00	27.00
Personal Services	814,424	195,994	0	1,010,418	197,480	0	1,011,904	2,022,322
Operating Expenses	541,214	44,916	47,742	633,872	46,636	37,742	625,592	1,259,464
Equipment	21,878	(7,178)	19,500	34,200	(7,178)	34,500	49,200	83,400
Debt Service	33,170	0	0	33,170	0	0	33,170	66,340
Total Costs	$1,410,686	$233,732	$67,242	$1,711,660	$236,938	$72,242	$1,719,866	$3,431,526
General Fund	1,034,857	211,566	10,000	1,256,423	214,772	15,000	1,264,629	2,521,052
State/Other Special	375,829	22,166	57,242	455,237	22,166	57,242	455,237	910,474
Federal Special	0	0	0	0	0	0	0	0
Total Funds	$1,410,686	$233,732	$67,242	$1,711,660	$236,938	$72,242	$1,719,866	$3,431,526

Program Description

The Computer Services and Planning Division provides a full range of automated data processing and telecommunication services for the Department of Justice, including: 1) system development and maintenance of the motor vehicle registration system; 2) driver history system; 3) criminal history record information system and the Montana Uniform Crime Reporting System; 4) computer operator support for the Department of Justice computer system; and 5) system development and support for the Criminal Justice Information Network (CJIN). CJIN links law enforcement/criminal justice agencies with information sources at local, state, and national levels by interfacing with the National Law Enforcement Telecommunications System, the National Crime Information Center (NCIC), and numerous state of Montana files.

Funding

Operating costs of the CJIN network are partially supported by the CJIN state special revenue account, which receives revenue from fees charged to user agencies. General fund subsidizes the network. The balance of the Computer Services and Planning Division is supported with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4110 29
Department of Justice
Computer Service & Planning Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	195,994	197,480
02		Inflation/Deflation	(11,989)	(16,565)
03		Fixed Costs	41,798	46,894
Total Statewide Adjustments			$225,803	$227,809
Significant Present Law Adjustments				
04	79199	Equipment - Cspd - Non Dis	0	0
05	91291	Lease & Flat Fee Increase ·	15,421	16,621
06	91292	Travel - Pl	3,221	3,221
07	91293	Education & Training - Pl	0	0
08	91294	Equipment Replacement - Pl	(7,178)	(7,178)
09	91666	Legislative Contract Authority	0	0
Total Significant PL Adjustments			$11,464	$12,664
Other Base Adjustments			($3,535)	($3,535)
Grand Total Present Law Adjustments			$233,732	$236,938

4) Lease and Flat Fee Increase - The majority of this recommended increase ($13,947) relates to the flat fee charged by the Information Services Division (ISD) for the lease maintenance of the armory computer. The total increase for each year of the biennium is $20,000. The amount reflected here is the Computer Services and Planning Division share of that increase. The remainder is for minor increase for the photocopy pool services and the communications fee for the National Law Enforcement Telecommunications Systems (NLETS).

5) Travel - An additional $3,221 is recommended for travel to support two FTE authorized by the 1995 legislature but not hired until the summer of 1996. The two positions provide statewide auditing and training services for the CJIN system. CJIN fees will support the increased travel.

6) Equipment - Replacement - There is a decrease of $7,178 each year from the $21,031 base for purchase of replacement personal computers and related software.

Other Base Adjustments -Recommended advertising costs are $3,535 lower than fiscal 1996 actual. The advertising costs in fiscal 1996 were the result of several key staff vacancies which necessitated extensive advertising. The division anticipates that there will be staff turn-over, but that key positions will be stable.

4110 29
Department of Justice **Computer Service & Planning Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Computer Security		10,000		10,000		15,000		15,000
02	Ncic-2000			42,650	42,650			42,650	42,650
03	Equipment - New			14,592	14,592			14,592	14,592
	Total For New Proposals		$10,000	$57,242	$67,242		$15,000	$57,242	$72,242

Executive New Proposals

1) Computer Security - It is recommended that the division contract with a professional security consultant in fiscal 1998 to assist in conducting a security risk analysis of the Department of Justice automated information systems. The consultant working with an internal security committee would develop work and action plans.

In fiscal 1999 there $15,000 recommended to begin the process of upgrading security features or workstations based upon the findings and recommendations of the security consultant and internal security committee. It is assumed the cost will be about $300 per workstation.

2) NCIC - 2000 - Montana's Criminal Justice Information Network (CJIN) is a computerized system that provides Montana law enforcement officials with critical crime and public safety information.

Funding for CJIN 2000 was approved by the 1995 legislature. Because of delays at the federal level, funds appropriated for the 1997 biennium will not be spent. This proposal is for the same authority that was approved for the 1997 biennium to make improvements in the CJIN message switcher and associated hardware /software changes at the computer center in the Helena Armory. A biennial appropriation of $85,300 is recommended and reflected in the above table as $42,650 each year of the biennium in accordance with an Office of Budget and Program Planning (OBPP) policy.

3) Equipment - New - Six new computers are recommended for each year of the biennium in addition to data network services from the Department of Administration. The purchase of this equipment will add six new users to the CJIN system each year. The new proposal will be supported with CJIN user fees.

Executive Language Recommendation

The following language is recommended for the division in HB 2:

> "Item X contains $42,650 in fiscal 1998 and $42,650 in fiscal 1999 which is a biennial appropriation that may be combined and spent in either year of the biennium."

4110 30
Department of Justice — **Extradition & Transportation of Prisoners**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Operating Expenses	92,913	63,104	0	156,017	63,104	0	156,017	312,034
Equipment	1,455	(1,455)	0	0	(1,455)	0	0	0
Total Costs	$94,368	$61,649	$0	$156,017	$61,649	$0	$156,017	$312,034
General Fund	94,368	61,649	0	156,017	61,649	0	156,017	312,034
Total Funds	$94,368	$61,649	$0	$156,017	$61,649	$0	$156,017	$312,034

Program Description

The Extradition and Transportation of Prisoners Program reimburses county sheriffs for allowable expenses associated with transporting prisoners to Montana detention centers and for expenses of extraditing prisoners to Montana.

Funding

The program is supported entirely by general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies.

Other Base Adjustments -Expenditures for the extradition and transportation of prisoners dropped off dramatically following fiscal 1993 when the Governor's Office instituted tighter management control, introduced usage of private extraditions services, and began an interstate shuttle system.

4110 30
Department of Justice — Present Law Adjustments/Issues
Extradition & Transportation of Prisoners

Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	0	0
02	Inflation/Deflation	61,649	61,649
03	Fixed Costs	0	0
	Total Statewide Adjustments	$61,649	$61,649
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	$61,649	$61,649

Expenditure History:

Fiscal 1993	$163,879
Fiscal 1994	$117,218
Fiscal 1995	$130,218
Fiscal 1996	$ 94,368
Fiscal 1997	$156,017 (budget)

Fiscal 1996 expenditures were 27.5 percent below fiscal 1995. At this time there is no explanation for the reduction, other than the controls outlined above. It is anticipated that expenditures will return to a more normal level during the 1999 biennium. It is recommended that the fiscal 1997 budgeted level of $156,017 be maintained during the 1999 biennium.

LFD Issue **- Fiscal 1996 expenditures for extradition and transportation may have been unusually low; however, to appropriate a 65 percent increase to a level not expended since fiscal 1993 does not seem reasonable based on recent history of the expenditures shown above. The legislature may want to consider using the four year average of approximately $126,000, which is a 34 percent increase over the fiscal 1996 expenditures.**

4110 32
Department of Justice
Program Proposed Budget

Forensic Science Division

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	22.00	0.00	0.00	22.00	0.00	0.00	22.00	22.00
Personal Services	956,641	128,083	0	1,084,724	130,536	0	1,087,177	2,171,901
Operating Expenses	348,826	67,123	0	415,949	92,998	0	441,824	857,773
Equipment	145,691	(43,491)	0	102,200	(50,691)	0	95,000	197,200
Total Costs	$1,451,158	$151,715	$0	$1,602,873	$172,843	$0	$1,624,001	$3,226,874
General Fund	1,154,887	151,715	0	1,306,602	172,843	0	1,327,730	2,634,332
State/Other Special	256,122	0	0	256,122	0	0	256,122	512,244
Federal Special	40,149	0	0	40,149	0	0	40,149	80,298
Total Funds	$1,451,158	$151,715	$0	$1,602,873	$172,843	$0	$1,624,001	$3,226,874

Program Description

The Forensic Science Division, which includes the State Crime Lab in Missoula and the State Medical Examiner, provides for a statewide system of death investigation, forensic science training, scientific criminal investigation, and analysis of of specimens submitted by law enforcement officials, coroners, and state agencies. The division tests firearms, toolmarks, hair, fiber, drugs, blood, body fluids, and tissues. The laboratory also analyzes blood, breath, and urine samples in connection with Driving Under the Influence of Alcohol or Drugs (DUI) and provides the certification, maintenance, and training of all law enforcement personnel on breath testing instruments.

Funding

The Forensic Science Division is primarily supported with general fund, which funds 82 percent of the budget. The Division receives $256,122 of earmarked alcohol tax annually for the laboratory testing and intoxilizer equipment maintenance done by the State Crime Lab for the DUI enforcement program. It is anticipated that a federal grant through the Montana Board of Crime Control in the amount of $40,149 annually will support a forensic scientist position. The federal funds will require a 25 percent general fund match.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies.

4110 32
Department of Justice
Forensic Science Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	128,083	130,536
02		Inflation/Deflation	4,390	7,801
03		Fixed Costs	3,750	4,423
		Total Statewide Adjustments	$136,223	$142,760
Significant Present Law Adjustments				
04	79199	Computers/Printer - Fsd Nondis	0	0
05	91321	Equipment-Fsd-Nondis	(43,491)	(50,691)
06	91322	Latent Fingerprint Examiner	9,100	9,100
07	91323	Rent - Pl	1,474	1,474
08	91324	Dna Implementation - Pl	48,409	70,200
09	91666	Legislative Contract Authority	0	0
		Total Significant PL Adjustments	$15,492	$30,083
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$151,715	$172,843

The other numbered adjustments in the table correspond to the narrative descriptions.

4) FSD Equipment - Replacement - Equipment is recommended for replacement as follows. In fiscal 1998 there is a fume hood, $6,200; Gas Chromatograph/Mass Selective Detector, $80,000; network printer upgrade, $4,000; and computer upgrades (4), $12,000; for a total of $102,200. In fiscal 1999 there is a Gas Chromatograph with Pyrolyzer, $48,000, and a Gas Chromatograph/Flame Ionization Detector, $47,000, for a total of $95,000.

Because $145,691 was spent in the Forensic Science Division for equipment during fiscal 1996, the recommendations result in a decrease of $43,491 in fiscal 1998 and $50,691 in fiscal 1999 from the base.

5) Latent Fingerprint Examiner - A second latent print examiner was hired because of the backlog for latent fingerprint processing. There is $9,100 recommended each year of the biennium for operating expenses associated with this position.

6) Rent - The State of Washington has given the Forensic Science Division a Scanning Electron Microscope (new the instrument would cost $150,000 to $200,000). The FSD was unable to place the instrument on the sixth floor because of the buildings vibrations. The FSD has rented a small room (225 square feet) in the basement of St. Patrick's Hospital at $6.55 per square foot or $1,474 per year.

7) DNA Implementation - The 54th Legislature passed HB 551, an act requiring certain sexual and violent offenders to provide DNA samples in order to establish a DNA identification index with the Department of Justice FSD. The estimated cost to implement this program for the 1997 biennium was $571,338. This cost included one-time remodeling and one-time equipment purchases. The legislature appropriated $300,000 for the 1997 biennium. The FSD wrote several grants and delayed the implementation of this program until enough funding was available to properly create this section at the crime laboratory. Because of the delayed implementation, few operating expenditures are reflected in fiscal 1996. There is $48,409 recommended in fiscal 1998 and $70,200 in fiscal 1999 for an annualized operating budget. The two main items are supplies and laboratory space.

LFD Comment **- This present law increase is funded entirely from the general fund. In fiscal 1996, $40,149 of federal funds received from the Board of Crime Control were expended in support of a forensic scientist position. The Executive Budget continues to budget the federal grant for the 1999 biennium at the level expended in fiscal 1996.**

4201 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Public Service Regulation				
FTE	39.50	0.00	0.00	39.50	0.00	0.00	39.50	39.50
Personal Services	1,538,269	172,585	0	1,710,854	177,621	0	1,715,890	3,426,744
Operating Expenses	425,168	67,365	495,000	987,533	56,859	995,000	1,477,027	2,464,560
Equipment	62,177	(32,177)	0	30,000	(32,177)	0	30,000	60,000
Debt Service	0	33,600	0	33,600	27,300	0	27,300	60,900
Total Costs	$2,025,614	$241,373	$495,000	$2,761,987	$229,603	$995,000	$3,250,217	$6,012,204
State/Other Special	2,010,118	230,619	495,000	2,735,737	218,849	995,000	3,223,967	5,959,704
Federal Special	15,496	10,754	0	26,250	10,754	0	26,250	52,500
Total Funds	$2,025,614	$241,373	$495,000	$2,761,987	$229,603	$995,000	$3,250,217	$6,012,204

Mission Statement

To fairly balance the long-term interests of Montana utility and transportation companies and the customers they serve.

Agency Description

The Department of Public Service Regulation (PSR) regulates the public utility and railroad industries to provide consumers with safe, reliable, and adequate services at the lowest cost while providing the regulated industries with a fair and reasonable return on their investment. The department is provided for in 2-15-2601 and 69-1-102, MCA, and operates under one program, the Public Service Regulation. This program is overseen by five commissioners elected from districts throughout Montana.

4201 00

Public Service Regulation

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
				Biennium Budget Comparison				
FTE	39.50	0.00	39.50	39.50	0.00	39.50	39.50	39.50
Personal Services	1,710,854	0	1,710,854	1,715,890	0	1,715,890	3,176,203	3,426,744
Operating Expenses	492,533	495,000	987,533	482,027	995,000	1,477,027	967,087	2,464,560
Equipment	30,000	0	30,000	30,000	0	30,000	63,527	60,000
Debt Service	33,600	0	33,600	27,300	0	27,300	0	60,900
Total Costs	$2,266,987	$495,000	$2,761,987	$2,255,217	$995,000	$3,250,217	$4,206,817	$6,012,204
State/Other Special	2,240,737	495,000	2,735,737	2,228,967	995,000	3,223,967	4,164,558	5,959,704
Federal Special	26,250	0	26,250	26,250	0	26,250	42,259	52,500
Total Funds	$2,266,987	$495,000	$2,761,987	$2,255,217	$995,000	$3,250,217	$4,206,817	$6,012,204

Funding

The Public Service Regulation Program is funded primarily by a fee on regulated companies which is deposited directly into a state special revenue account. In addition, there is $26,250 available each year of the biennium from the U.S. Department of Transportation to help support the Natural Gas Pipeline Safety Program.

A new proposal, the Universal Access program, would be appropriated from the state special revenue fund in the amounts of $495,000 in fiscal 1998 and $995,000 in fiscal 1999. Revenues would be collected from a surcharge applied to all private corporations involved in the telecommunications industry in Montana.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4201 01
Public Service Regulation
Public Service Regulation Program

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	157,585	162,621
02		Inflation/Deflation	(1,586)	(1,574)
03		Fixed Costs	22,233	6,069
		Total Statewide Adjustments	$178,232	$167,116
Significant Present Law Adjustments				
04	79199	Equipment - Pc'S	(32,177)	(32,177)
05	91001	Equipment - Vehicles	23,476	16,276
06	91002	Consulting And Professional Services	44,250	44,250
07	91003	New Assignments/Ps	15,000	15,000
		Total Significant PL Adjustments	$50,549	$43,349
Other Base Adjustments			$12,592	$19,138
		Grand Total Present Law Adjustments	$241,373	$229,603

4) Equipment - PCS - The recommended replacement equipment totals $30,000 in fiscal 1998 and $30,000 in fiscal 1999. This is a net reduction of $32,177 per year from the base. The agency wants to replace 12 Dell computers purchased in 1992 and 1993 each year of the biennium.

5) Leased Vehicles Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $33,600 in fiscal 1998 for three pickups and $27,300 to continue these leases in fiscal 1999. The vehicles are to be used by staff located in Missoula, Billings, and Great Falls. Leasing costs will be offset in the 1999 biennium by a reduction of $10,925 in fiscal 1998 and $10,925 in fiscal 1999 in operating costs for repair, maintenance, vehicle supplies, and gasoline savings. The agency will be responsible for transferring radios and light bars to the leased vehicles at a projected cost of $300 per vehicle. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The net increase is $23,476 in fiscal 1998 and $16,276 in fiscal 1999. Refer to the Montana Department of Transportation (MDT) State Motor Pool narrative for the statewide information on leased vehicles.

6) Consulting and Professional Services - A $100,000 biennial appropriation for consultants and professional services is recommended and reflected in the above table as $50,000 each year of the biennium in accordance with an Office of Budget and Program Planning (OBPP) policy. The legislature has approved the biennial appropriation in prior sessions. Also recommended is $4,269 each year of the biennium for court reporter services. The request is an annual increase of $44,250 over base year expenditures.

LFD Comment **- The agency expended $5,750 in fiscal 1996 from the biennial appropriation for consultants. This request increases the present law by $44,250 which will budget the biennial appropriation at $50,000 per year for the 1999 biennium. While the executive description includes another $4,269 each year for court reporter services, this addition was apparently not included in the Executive Budget.**

7) New Assignments/PS - In anticipation of shifting workloads for the commission in the next biennium, some exempt staff will be assigned new responsibilities. New assignments will result in increased personal services needs. $15,000 is requested each year of the biennium to compensate the exempt staff.

Other Base Adjustments - Other recommended adjustments include an anticipated rent increase of $11,066 in fiscal 1998 and $17,144 in fiscal 1999, increased National Association of Regulatory Utility Commissioners (NARUC) dues of $771 in fiscal 1998 and $1,239 in fiscal 1999, and an increase of $755 each year of the biennium associated with the upgrade of telephone equipment.

LFD Issue **- In fiscal 1996 the agency expended $141,156 for office rent. The requested present law increase reflects a average annual increase of 4.0 percent from fiscal 1996 to fiscal 1999.**

4201 01
Public Service Regulation — **Public Service Regulation Program**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
New Proposal Description		FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Universal Access And Service			495,000	495,000			995,000	995,000
	Total For New Proposals			$495,000	$495,000			$995,000	$995,000

Executive New Proposals

1) Universal Access and Service - A Blue Ribbon Telecommunications Task Force (BRTF) was appointed by the Governor in accordance with HB 460 as was enacted by the 1995 legislature. Appointed and ex-officio BRTF members and legislative representatives have been considering the various issues and opportunities presented by the changing structure and technology within the telecommunications industry. The task force recommends that a Universal Access Program be created to cover the 1997-1999 biennium. This program may be terminated or combined with the universal service fund no later than January 1, 2000. The program will allow access to advanced services for schools, libraries, and rural health care providers and to provide universal access to all Montanans.

The task force's proposed legislation package will include legislation charging the Public Service Commission (PSC) with: 1) reviewing the impact on universal access and service in Montana of any federal universal service fund which results from the current FCC rulemaking process associated with the Telecommunications Act of 1996; 2) evaluating the extent to which such a federal universal service fund falls short of supporting legislatively-defined universal access and service goals in Montana; and 3) developing plans and proposed legislation for establishment of a state universal service fund which will ensure the attainment of those goals for consideration during the 1999 legislative session.

The program will be funded based on the retail revenues for all intrastate telecommunications services as defined in 15-53-101(b), MCA. Funding for the 1999 biennium will be $1,500,000, $500,00 for the first year and $1,000,000 for the second year. Collection of the revenues for the program will be administered by the Department of Revenue at a projected cost of

$5,000 annually. The PSC will administer the remainder of the fund. The task force recommends that the PSC contract the majority of the staff time needed or hire only temporary employees.

Executive Language Recommendation

The appropriation for the proposed Universal Access Program is contingent upon the passage and approval of legislation by the 1997 legislature.

6401 00

Department of Corrections

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	882.77	(3.75)	102.15	981.17	(3.75)	199.89	1,078.91	981.17
Personal Services	28,358,513	2,302,044	2,752,261	33,412,818	2,406,503	5,420,530	36,185,546	69,598,364
Operating Expenses	20,301,132	8,761,470	6,418,233	35,480,835	10,278,629	9,131,342	39,711,103	75,191,938
Equipment	702,892	(232,702)	2,146,560	2,616,750	(361,438)	1,163,148	1,504,602	4,121,352
Capital Projects	0	0	0	0	0	0	0	0
Grants	22,259	32	0	22,291	5,366,802	0	5,389,061	5,411,352
Benefits and Claims	4,948,691	2,563,548	0	7,512,239	(2,803,222)	0	2,145,469	9,657,708
Debt Service	75,250	(508)	58,590	133,332	27,972	165,450	268,672	402,004
Total Costs	$54,408,737	$13,393,884	$11,375,644	$79,178,265	$14,915,246	$15,880,470	$85,204,453	$164,382,718
General Fund	52,136,141	13,464,185	11,228,957	76,829,283	15,006,461	15,685,721	82,828,323	159,657,606
State/Other Special	1,403,509	(102,561)	41,892	1,342,840	(108,781)	50,396	1,345,124	2,687,964
Federal Special	492,592	13,752	9,795	516,139	10,961	9,798	513,351	1,029,490
Proprietary	376,495	18,508	95,000	490,003	6,605	134,555	517,655	1,007,658
Total Funds	$54,408,737	$13,393,884	$11,375,644	$79,178,265	$14,915,246	$15,880,470	$85,204,453	$164,382,718

Mission Statement

The Department of Corrections is dedicated to public safety and trust by holding adult and juvenile offenders accountable for their actions through custody, supervision, treatment, work, and skill development.

Agency Description

The Department of Corrections (DOC), authorized in section 2-15-2301, MCA, is directed in section 53-1-201, MCA, to "utilize at maximum efficiency the resources of state government in a coordinated effort to: 1) develop and maintain comprehensive services and programs in the field of adult and youth corrections; and 2) provide for the care, protection, and mental and physical development of youth alleged to be youth in need of supervision or delinquent youth who are referred or committed to the department."

Supplemental Appropriation

Juvenile Placement

General fund of $5,328,305 for the care, protection, and mental and physical development of youth alleged or adjudicated to be youth in need of supervision or delinquent youth who are referred or committed to the department, pursuant to 53-1-201and 203, MCA. There is nearly $3.2 million for the fiscal 1996 appropriation transfer and about $2.2 million for the fiscal 1997 deficit. Contributing to the supplemental request is the loss of access to Title IV-A funds in the amount of about $500,000 in fiscal 1996 and $1,000,000 in fiscal 1997. The decreased shortfall from fiscal 1996 to 1997 indicates that the tracking system, placement guidelines, and other steps taken by the department are having a positive effect.

LFD Comment **- For both fiscal 1996 and fiscal 1997 the primary reasons for the general fund supplementals continue to be cost over-runs in the following areas: 1) secure care for females; 2) the Montana Youth Alternative Program; 3) sex offender treatment; and 4) an overall increase in the number of youth placements into the juvenile system. The following is a brief discussion of each of these areas of the juvenile program.**

Secure Care Females - When the legislature approved the closure of Mountain View School, it closed the only state operated facility with secure care beds for females. During the 1995 legislature, officials of the former Department of Family Services (DFS) (which prior to the 1996 reorganization was the administering agency for the juvenile program) testified to the Health and Human Services Appropriations Subcommittee that DFS would be able to absorb the costs of secure care females and estimated that no more than 10 girls annually would be in need of secure care. In fiscal 1996 the DOC paid a private facility to house 25 females in secure care custody and expended $562,000 for this purpose. The legislature appropriated $100,000 per year for this purpose.

Montana Youth Alternatives - When the MYA program was presented to the 1995 legislature, it was the testimony of the DFS that the program would be operated within the same budget as the Mountain View School, which they were proposing be closed. In effect, the legislature could establish the MYA program, close Mountain View School, and not increase the operating budgets of the DFS. In retrospect, it appears that DFS failed to do an accurate assessment of the actual program cost implications. The total budget for the MYA program was $2.2 million, while actual expenditures were approximately $3.5 million.

Sex Offender Treatment - Although it was not requested by DFS, the legislature added another $300,000 general fund to be used for treatment programs for juvenile sex offenders. Because of their concern that they were being asked to make major policy and budgetary decisions impacting the direction of Montana's juvenile corrections programs with little data available to them, the legislature added the following language to HB2 referencing this appropriation:

> "The Department shall provide to the 55th Legislature the following information about expenditures fund from item 3a [the Sex offender/Secure care female appropriation]: number of children served, the average cost per child, services provided, the treatment outcomes, and the current placement of children served."

Total costs for sex offender treatment in fiscal 1996 were $1,572,663, of which $928,885 was funded from the 1996 general fund supplemental.

Community Services for Corrections Youth - According to DOC, there are increases in: 1) the number of juvenile offenders entering the system; and 2) in the average length of stay in the system. The average length of stay has increased from approximately 110 days in 1994 to 180 days in fiscal 1996. Specific data documenting the increase in the number of youth entering the system is not available. According to DOC, the data on youth received from DFS does not provide historical information regarding the number of youth in the system in prior years who were classified as juvenile offenders. The total cost for community services in fiscal 1996 was $5 million, and the 1996 general fund supplemental contributed $785,000.

Adult Corrections

General fund of $3,600,000 for the transfer of about 250 adult male offenders to the Dickens County Correctional Facility in Spur, Texas.

LFD Comment - The inmates were moved to the Texas facility at the beginning of the fiscal year. The supplemental represents a full year's contract at about $40 per day per inmate. The department is requesting funding in the 1999 biennium in a new proposal to house 398 inmates in fiscal 1998 and 500 inmates in fiscal

1999.

Agency Narrative

On July 1, 1995, the Department of Corrections was formed into a single state authority responsible for adult and juvenile corrections. As described in its new mission statement, the department re-dedicated itself to public safety and trust and to the task of holding adult and juvenile criminal offenders accountable for their actions.

Consideration of the 1999 biennium budget, which provides the funding necessary to fulfill the demands of state law, is presented based on the following key points, in addition to the department's Mission Statement:

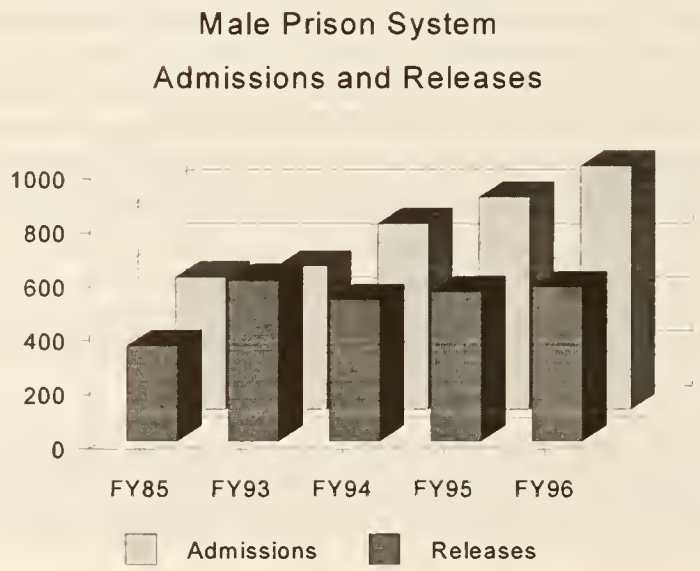
1) The goals of the department.
2) Facts concerning corrections capacity populations and projections.
3) Corrections history to learn from the lessons of the past.
4) Corrections accomplishments over the past three years.
5) Public opinion.

Goals

1) To **improve the safety** of the Montana Public and the **security** of our communities and homes.
2) To gain **public trust** through openness and responsiveness with particular **recognition of crime victims** and their families.
3) To **reduce the risk** that offenders will reoffend and that our citizens will be victims of crime.
4) To operate correctional programs that emphasize **offender accountability**.
5) To provide a working and program environment based on **professionalism, personal responsibility and respect** for each individual.

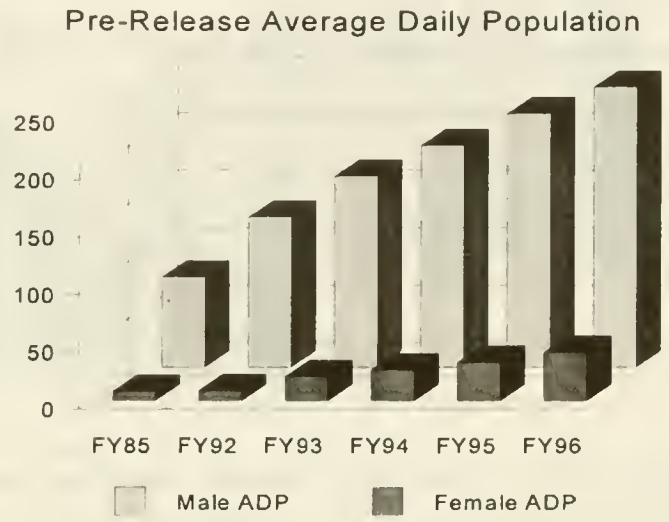
Facts about Correctional Populations

Prison Admissions and Discharges



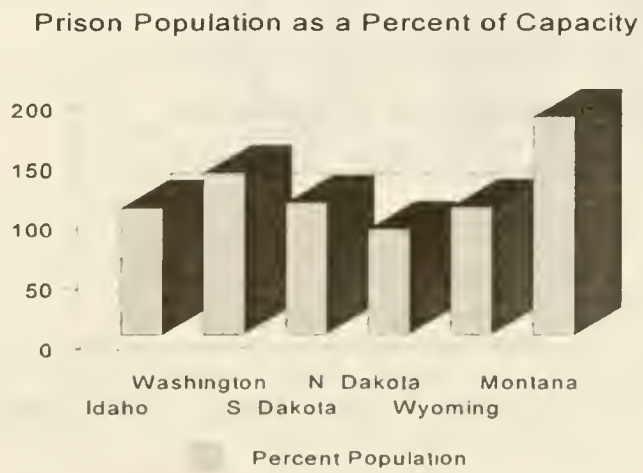
The years 1994 through 1996 saw a steep increase in prison admissions including more than 900 in 1996, while discharges were static. The admissions for the first quarter of 1997 are 161 percent of those during a similar period in 1993.

Pre-Release Average Daily Population



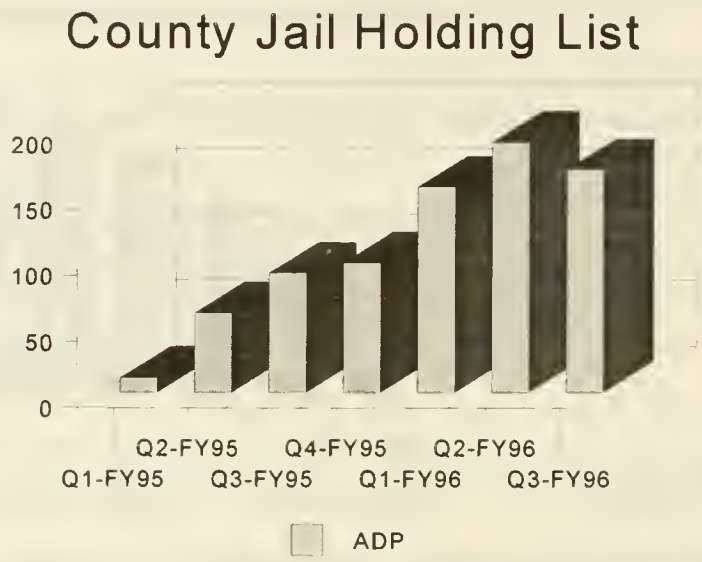
The department continues to increase contact with and supervision of offenders residing in our communities by working with communities to establish and fund expanded community corrections facilities. Simultaneously, the department is revisiting and recommending state law revisions affecting community corrections and alternative punishments in order to provide effective support and modernize options available at the local level. In fiscal 1992, the department had 131 adult males in pre-release programs at an average daily cost of $37.59. In fiscal 1996, there were 245 adult males in pre-release costing $37.63 per day. Adult females in pre-release programs increased from 9 in fiscal 1992 to 43 in fiscal 1996, with the cost reduced from $66.60 to $50.18 per day during the fiscal 1992 to 1996 period.

Prison Population as a Percent of Capacity



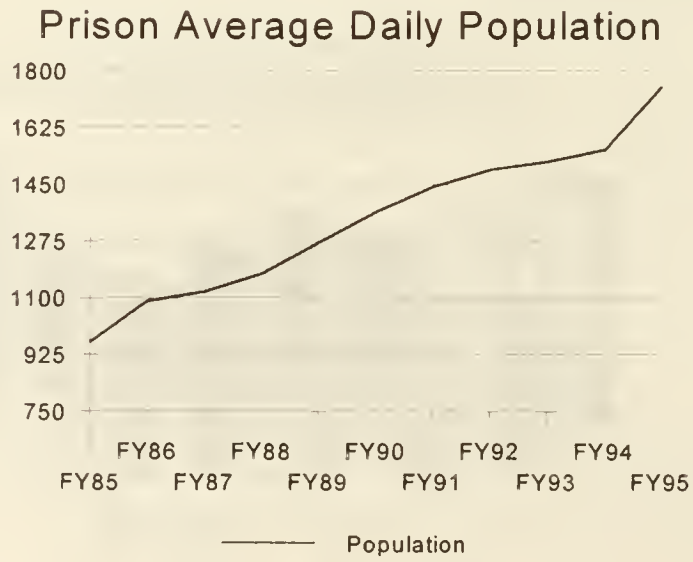
The Corrections Yearbook published in July, 1995, documents Montana State Prison operating at 182 percent of design capacity. In addition, the Women's Correctional Center and Pine Hills School are operating at or near capacity.

County Holding List

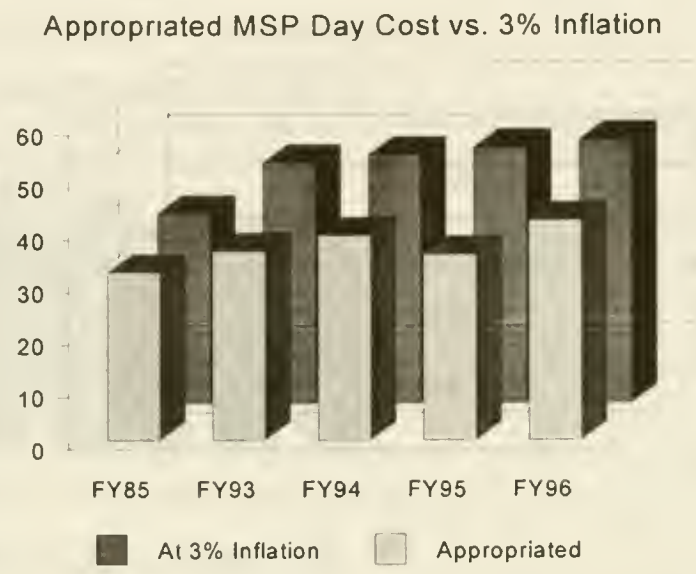


State inmates sentenced to Montana State Prison (MSP), but being held in county jails pending space at MSP, exceeded 200 in June, 1996, and have declined to 155 in November, 1996, following the transfer of 251 inmates to a private corrections facility in Texas.

Prison Average Daily Population

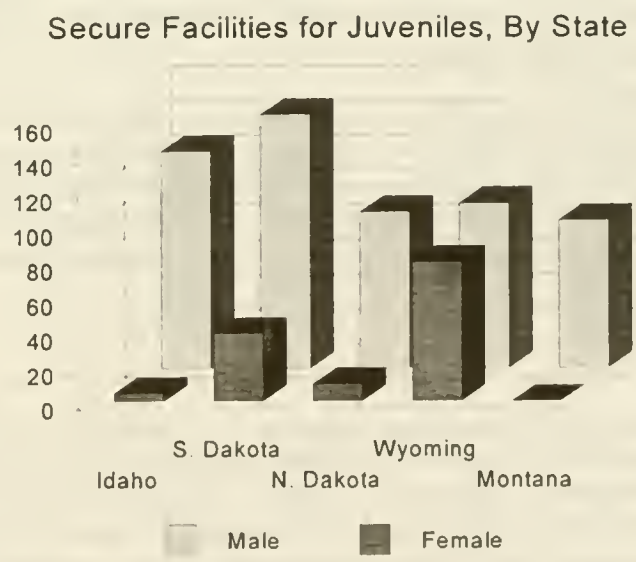


Appropriated MSP Day Costs vs. 3 Percent Inflation



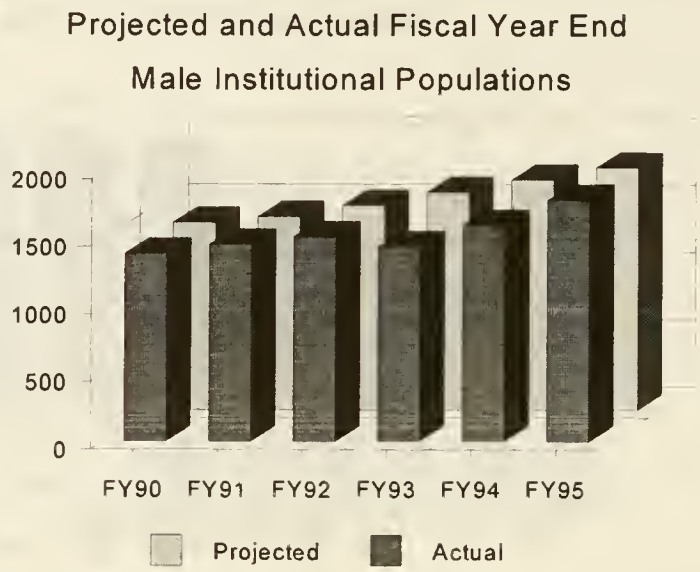
The prison system average daily population continues to reflect a steep growth trend which bears no resemblance to the relatively static crime rate and modest population increase growth trends. Meanwhile, appropriated MSP costs per day have remained well below a 3 percent inflation rate since fiscal 1984.

Secure Juvenile Facility Capacity



Montana's juvenile male secure correctional capacity is lower than all surrounding states and the state has no female secure facility.

Projections



The department is projecting 3,833 male inmates by fiscal year end 2001. This compares to an actual fiscal 1996 male population of 2,044. The department's history of projections compared to actual population documents a clear record of accuracy.

Corrections History

The history of Montana corrections begins on July 2, 1871, when Montana opened a 14-cell territorial prison. Five years later 80 prisoners shared 28 cells. By 1889, the historical reports describe the prison as deteriorating and overcrowded with 198 inmates, many sleeping in tents in the yard.

A 1958 report by the newly-created Legislative Council called for a new prison to replace the old territorial fortress-style building. The report recommended 950 beds. It was not until 1977 that the new prison was built to accommodate 334 inmates, but the old facility was kept in use because the new unit could not house all the inmates. By 1979, the prison could hold by design 718 beds, but state officials were predicting a need for 200 more beds before the end of 1985. The current facility is designed to house 850 inmates, and the state continues more than a hundred years of not being able to adequately house prisoners.

Accomplishments

The department has achieved several major accomplishments. 1) A boot camp was established to provide a new alternative program for young adult men willing to learn self-discipline and undergo a behavioral change. 2) The women's prison was moved to a permanent, modern location in Billings. 3) The community corrections capacity grew by about 50 percent, thus providing more beds for alternative corrections and the transition of inmates from prison. 4) The Governor's Advisory Council and the department drafted Truth in Sentencing legislation which created the Sentencing Commission to seek public input on sentencing. 5) The department met its statutory responsibility and conducted Montana's first execution in 50 years. 6) Probation and Parole staff was increased by about 40 percent to help protect public safety. 7) One hundred and ten beds were added in fiscal 1996, saving $300,000 through creative/cooperative use of inmate labor. 8) The state signed its first regional prison contract between state and local governments with Cascade County. 9) Juvenile delinquents have a new

Wilderness Corrections Program. 10) The department was reorganized to better reflect the public's expectations based on the input of hundreds of citizens through public forums.

Public Opinion

Using its Planning and Projections Subcommittee of the DOC Advisory Council, the department sought and received input from citizens through eight public forums as part of its reorganization. This input was used to help the department better reflect the expectations of the public.

Consequently, in order to achieve these goals, the department Executive Budget proposals include the following initiatives:

A Long Term Plan for the Management of Corrections Populations
Automated Victim Notification
Strengthen the Security of Correctional Facilities
Tougher Prisons
Technology and Evaluation
Enhanced Community Supervision
Certified Corrections Training
Juvenile CrimeEffective Consequences for Juvenile Crime
Communities Against Delinquency

Through these initiatives, while heeding the lessons of the past and present, the department hopes to reduce the risk that any Montana citizen will become a victim of crime and contribute to the safety and security of our communities and homes.

6401 00
Department of Corrections **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	879.02	102.15	981.17	879.02	199.89	1,078.91	882.77	981.17
Personal Services	30,660,557	2,752,261	33,412,818	30,765,016	5,420,530	36,185,546	59,305,156	69,598,364
Operating Expenses	29,062,602	6,418,233	35,480,835	30,579,761	9,131,342	39,711,103	40,780,617	75,191,938
Equipment	470,190	2,146,560	2,616,750	341,454	1,163,148	1,504,602	1,317,284	4,121,352
Capital Projects	0	0	0	0	0	0	12,000	0
Grants	22,291	0	22,291	5,389,061	0	5,389,061	43,205	5,411,352
Benefits and Claims	7,512,239	0	7,512,239	2,145,469	0	2,145,469	9,418,609	9,657,708
Debt Service	74,742	58,590	133,332	103,222	165,450	268,672	136,333	402,004
Total Costs	$67,802,621	$11,375,644	$79,178,265	$69,323,983	$15,880,470	$85,204,453	$111,013,204	$164,382,718
General Fund	65,600,326	11,228,957	76,829,283	67,142,602	15,685,721	82,828,323	105,919,978	159,657,606
State/Other Special	1,300,948	41,892	1,342,840	1,294,728	50,396	1,345,124	2,818,521	2,687,964
Federal Special	506,344	9,795	516,139	503,553	9,798	513,351	1,070,185	1,029,490
Proprietary	395,003	95,000	490,003	383,100	134,555	517,655	1,204,520	1,007,658
Total Funds	$67,802,621	$11,375,644	$79,178,265	$69,323,983	$15,880,470	$85,204,453	$111,013,204	$164,382,718

Agency Issues

Corrections Population and Executive Response

Prison population is determined by the number of admissions to and releases from prison and the time elapsing between each admission and subsequent release. Total correctional populations (prison, parole, and probation) have increased substantially from an average daily population (ADP) of 4,845 in 1990 to 6,665 in 1995, and is projected to be 8,938 in fiscal 1999. Table 1 shows Montana's correctional population since 1990, by placement.

Table 1
Average Daily Populations of Montana Adult Corrections Programs

	Projected 1999	Projected 1998	Projected 1997	Actual 1996	Actual 1995	Actual 1994	Actual 1993	Actual 1992	Actual 1991	Actual 1990
Montana State Prison	1,546	1,445	1,437	1,303	1,356	1,253	1,181	1,192	1,140	1,097
Women's Correctional Center	70	70	68	70	57	45	54	63	58	53
Regional Prisons	296	152	0	0	0	0	0	0	0	0
Out State Contracts	500	375	250	125	0	0	0	0	0	0
County Jails	109	132	149	206	72	0	0	0	0	0
Swan Camp	0	0	34	33	25	43	44	55	57	52
Boot Camp @ MSP	60	40	0	0	0	0	0	0	0	0
Community Correction Facilities	430	420	355	303	259	257	188	140	145	133
Probation	4,881	4,664	4,457	4,259	4,070	4,069	3,918	3,556	3,240	2,991
Parole	843	805	769	734	701	701	675	613	557	490
Intensive Supervision	203	186	171	142	125	88	54	45	43	29
Total	8,938	8,289	7,690	7,175	6,665	6,456	6,114	5,664	5,240	4,845
Population Categories as a Percent of Total Correction Population										
Community Based Incarceration *	7.08%	7.31%	6.84%	6.20%	5.76%	5.34%	3.96%	3.27%	3.59%	3.34%
Parole Population	9.43%	9.71%	10.00%	10.23%	10.52%	10.86%	11.04%	10.82%	10.63%	10.11%
Probation Population	54.61%	56.27%	57.96%	59.36%	61.07%	63.03%	64.08%	62.78%	61.83%	61.73%
Prison Population	28.88%	26.71%	25.20%	24.21%	22.66%	20.77%	20.92%	23.13%	23.95%	24.81%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

*Community Based Incarceration is the total of Intensive Supervision and Community Corrections

Table 2 shows Montana's corrections population increases compared to both the crime rate and general population increases. As shown, the growth in the state's corrections population has increased at a significantly faster rate.

Table 2
Montana Crime Rate, Corrections Population and General Population
1990-1995

Calendar Year	Crime Rate Per 100,000	Annual Percent Change	Corrections Population	Annual Percent Change	State Population	Annual Percent Change
1990	4,503		4,845		799,065	
1991	4,638	3.00%	5,240	8.15%	808,238	1.15%
1992	4,570	-1.47%	5,664	8.09%	823,251	1.86%
1993	4,420	-3.28%	6,114	7.94%	841,033	2.16%
1994	4,730	7.01%	6,338	3.66%	856,242	1.81%
1995	5,484	15.94%	6,500	2.56%	872,728	1.93%
Cumulative Change		21.79%		34 16%		9.22%

Because of this greater growth rate, we must look to other explanations than the factors of population and crime rate growth. A number of factors contribute, including a greater desire on the part of the public to get tough on crime and changing attitudes about what constitutes a felony crime. These changing attitudes have had impacts throughout the correctional system. At the legislative level, it appears in the form of new crimes, mandatory sentencing, longer sentences, and limits on parole and time off for good behavior. At the judicial level, it affects decisions to prosecute, the public resources devoted to prosecution, and the attitudes of judges and those responsible for probation and parole decisions. Table 3 shows how the average sentence length for specific crimes has increased since 1990.

Viewed independently of costs, the policies associated with these changes in attitudes appear to have the overwhelming support of the general public. This support tends to translate directly into support for tougher measures in the legislature. As with all public budget policies when dealing with limited revenues, tradeoffs occur with other government programs competing for state tax dollars, particularly those large general fund appropriations associated with human services, K-12 education and higher education. On the other hand, more criminals are in jail and serving longer sentences. This should have the effect of a safer society. Some criminologists maintain that the current nationwide reductions in crime rates are a direct result of having more criminals in the nation's prisons and not on the streets. Legislatures nationwide are now facing the budgetary consequences of these policies.

Table 3
Average Sentence Length in Years of Montana State Prison Populations and Admissions by selected crimes

	Fiscal Year 1994	Fiscal Year 1993	Fiscal Year 1992	Fiscal Year 1991	Fiscal Year 1990
Population					
Deliberate Homicide	92.20	88.10	85.70	87 60	88.00
Aggravated Assault	30.10	31.20	28.30	28.30	28.20
Robbery	43.60	40.90	23.30	25.60	21.70
Sexual Assault	16.70	16.80	14.00	13.50	12.90
Rape	32.70	33.90	22.80	21.80	21 60
Burglary	19.90	21.30	13.00	11.10	10.50
Theft	15.10	15.90	11.60	11 40	10.60
Admissions					
Deliberate Homicide	110 00	72 10	52.50	63.90	74 30
Aggravated Assault	10.70	13.90	12.40	11 10	8.60
Robbery	22 40	15.60	8.30	19.40	9.60
Sexual Assault	10.50	10.30	11.30	12 20	12 30
Rape	17.00	21.80	14.90	19.90	21.00
Burglary	9.70	11 10	10.60	7.90	7.30
Theft	8 40	10.70	7 90	8 00	7.00

Executive Budget

In Montana, the Executive Budget is proposing $27 million in new proposals for the 1999 biennium and another $22 million in present law adjustments. As a result, the executive recommends that the amount expended for corrections be expanded by 51 percent over fiscal 1996 expenditures. In the 1997 biennium, expenditures for corrections are less than 6 percent of the total state general fund expenditures in the general appropriations act. The Executive Budget would increase that share to over 8 percent in the 1999 biennium.

In evaluating the Executive Budget proposals, the legislature needs to be aware of how the budget of the DOC is influenced by the entire judicial system. Admissions and releases are controlled by governmental entities external to the Department of Corrections. The legislature defines crimes and the appropriate penalties for those crimes. In Montana over the last several years, several pieces of legislation have passed which have increased or will increase the corrections populations. The Judiciary oversees determinations of guilt or innocence and sets the sentence within the parameters allowed by law. All initial admissions to the corrections system are governed by the Judiciary. Discretionary releases from sentence or parole are the responsibility of the Montana Board of Parole. Trends in discretionary releases may also be influenced by the shifts in public attitudes. Data provided by the Montana Board of Pardons shows that, although the number of inmates released to parole in recent years has increased, the proportion of total inmates has declined (Table 4).

Table 4
Parole as a Percent of Population
Fiscal 1990 to Projected Fiscal 1999

Year	ADP	Percent of Total
1990	490	10.1%
1991	557	10.6%
1992	613	10.8%
1993	675	11.0%
1994	701	10.9%
1995	701	10.5%
1996	734	10.2%
1997	769	10.0%
1998 Proj.	805	9.7%
1999 Proj.	843	9.4%

Adult Corrections

There are several ways to examine the proposals of the administration for dealing with the increasing adult corrections population. The following summarizes the executive response to projected population increases by various categories, including:

1) Secure Facilities Expansion. Included in this category are those measures primarily designed to increase the secure facilities capacity of the state, and includes regional jails and private contracts.

2) Community Corrections. Included in this category are those proposals designed to either increase the capacity of community corrections by creating additional bed space, or increasing the system probation and parole capacity.

3) Institutional and Public Safety. This category includes those measures proposed that would address either current or projected staffing changes, and issues of the perceived public safety of various other proposals.

4) Re-admissions Reduction. This category includes those proposals designed specifically to reduce readmissions, either by making prisons tougher or the use of shock incarceration programs such as the boot camp program.

5) Administration and Other. Included in this category are those other expenses associated with the operation of correctional systems, including medical costs and the executive's proposed automation system.

These categories are not precise. For example, the executive is requesting $2.2 million in fiscal 1998 and $1.4 million in fiscal 1999 to upgrade its automation systems. The executive states that the system should allow better tracking of persons under the jurisdiction of the department, presumably both for determination of most appropriate placement and treatment programs, and the impact of treatment programs on the number of readmissions. According to a 1996 LFD staff report, as well as a 1996 Legislative Audit Division performance

audit report, the department does not have in place the means to determine the impact of its treatment programs on readmissions.

Table 5
Adult Corrections
1999 Biennium Budget Increases

	Total Budget Increases	Secure Facilities	Community Corrections	Insitutional Safety	Recidivism Reduction	Inmate Medical	Administration
Fiscal 1998							
Present Law Adjustments	$6,753,373	$4,863,983	$2,041,785	$7,000	($14,859)	$1,772,088	($1,916,624)
New Proposals	10,558,061	5,006,296	625,466	1,323,866	366,141	708,816	2,527,476
Total Budget Increase	$17,311,434	$9,870,279	$2,667,251	$1,330,866	$351,282	$2,480,904	$610,852
Fiscal 1999							
Present Law Adjustments	$8,072,264	$5,983,734	$1,614,912	$7,000	($13,934)	$2,436,280	($1,955,728)
New Proposals	14,514,374	7,400,979	1,000,032	1,619,093	497,267	1,842,704	2,154,299
Total Budget Increase	$22,586,638	$13,384,713	$2,614,944	$1,626,093	$483,333	$4,278,984	$198,571 *
1999 Biennium							
Present Law Adjustments	$14,825,637	$10,847,717	$3,656,697	$14,000	($28,793)	$4,208,368	($3,872,352)
New Proposals	25,341,543	12,676,383	1,625,498	2,942,959	863,408	2,551,520	4,681,775
Total HB2 Budget Increase	$40,167,180	$23,524,100	$5,282,195	$2,956,959	$834,615	$6,759,888	$809,423
Percent of HB2 Total Increase	100.00%	58.57%	13.15%	7.36%	2.08%	16.83%	2.02%
Long Range Building							
Womens Correctional Center	$2,322,000	$2,322,000					
Montana State Prison	12,074,000	12,074,000					
Regional Correctional Facilities	11,400,000	11,400,000					
Total Long Range Building	$25,796,000	$25,796,000					
Total Budget Increases	$65,963,180	$49,320,100	$5,282,195	$2,956,959	$834,615	$6,759,888	$809,423
Percent of Total Budget Increase	100.00%	74.77%	8.01%	4.48%	1.27%	10.25%	1.23%

As shown in the table, the executive is placing the greatest resources in the expansion of secure facilities, with increases for these facilities totaling 58.6 percent of the DOC increase. This total increases to 74.8 percent if the long-range building proposals are included. This is also reflected in the change in overall orientation of placement expectations. The department expects a total corrections population of 8,938 by fiscal 1999. Secure care facilities are expected to house 28.9 percent and community corrections 71.1 percent. This mix compares with a fiscal 1996 mix of 24.2 percent secure facilities and 75.8 percent community corrections.

Juvenile Corrections

In addition to the measures proposed to address the adult corrections population, the executive is requesting a total of $4.6 million in fiscal 1998 and $5.2 million in fiscal 1999 for juvenile programs (Table 6). Please note that all of the general administrative increases requested are included in the adult corrections table, although all programs of the department could utilize a portion of these proposals.

Alternatives to Expanding Capacity

As shown in this overview, the general direction of the Executive Budget is to continue to emphasize the incarceration of more inmates. And in the immediate biennium, there are may be few alternatives available for the legislature to consider. Any solutions to the expanding corrections budgets need to be developed over the long term. The following are brief discussions of alternatives being developed in other states to attempt to avoid significant building costs and the resulting operating costs.

Table 6
Juvenile Corrections

	Fiscal 1998	Fiscal 1998	Biennium
Present Law Increases	$3,922,803	$3,957,060	$7,879,863
New Proposals	722,563	1,191,987	1,914,550
	$4,645,366	$5,149,047	$9,794,413

Crime Prevention

Increasingly, the preventative approach is being recognized as a criminal justice strategy. This approach reflects the recognition that, in spite of increasing investments, crime, especially among young people, has continued to rise over the past decade. For state government, this may mean funding programs that identify those risk factors in society that foster criminal activity among youth and developing programs targeting those factors. Research has identified factors associated with neighborhoods and communities, the family, the schools, and peer groups, that increase the probability of crime during adolescence and young adulthood. These factors have been shown to increase the probability of other behavior problems including substance abuse, teen pregnancy, and dropping out of school. The executive proposes a significant increase in funding prevention services in DPHHS to provide early intervention to families identified as at-risk of having a child removed from the home, but does not link this expansion to the long term corrections population. The Executive Budget also includes $5.4 million in grants to communities for the prevention, treatment, and placement of juveniles under the youth courts.

Sentencing Guidelines Tied to Prison Capacity

Some states have experimented with the development and application of sentencing guidelines based upon the prison beds available as one way to achieve predictability and equity in criminal penalties.

The Montana Sentencing Commission established by the 1995 legislature will recommend that the 1997 legislature not implement sentencing guidelines at this time. The Sentencing Commission will recommend to the legislature that the Commission remain in existence for the following purposes: 1) to continue to collecting data on criminal sentencing practices in Montana; 2) to develop a system of voluntary sentencing guidelines for use on an experimental basis and assess the experimental guidelines; 3) to review the current

maximum and minimum penalties prescribed in the Montana criminal code, as well as the current sentencing policy and sentence ranges, and make a recommendation to the 1999 legislature for modifications to achieve a simpler, more understandable sentencing system; and 4) to continue serving an educational function.

Community Programs and Alternative Sanctions

As shown in the previous discussion, the department will have a greater percent of adults in its secure care facilities at the end of the 1999 biennium. According the DOC, the cost to maintain an inmate at MSP is approximately $16,000 per year, as shown in Table 7.

Table 7
Cost per Inmate Day

	Fiscal 1996		Fiscal 1995		Fiscal 1994	
	Daily	Annual	Daily	Annual	Daily	Annual
MT State Prison	$44.47	$16,232	$39.34	$14,359	$40.58	$14,812
Womens Corrections Center	84.31	30,773	82.65	30,167	84.8	30,952
Men's Pre-release	37.63	13,735	36 65	13,377	32.68	11,928
Women's Pre-Release	50.18	18,316	46.7	17,046	NA	NA
Boot Camp	82.65	30,167	75.94	27,718	114.39	41,752
Probation and Parole	2.68	978	2.17	792	1 96	715
Intensive Supervision	17.39	6,347	NA	NA	NA	NA

The annual cost of an inmate under intensive supervision in a community based program is approximately $6,000, and probation and parole costs approximately $1,000 per offender. Therefore, alternative sanctions to prison for inmates who do not pose a threat of violence is one important way to avoid costly building programs. While the Executive Budget includes additional probation and parole officers to address the anticipated increases, it includes no plans to increase community based alternatives beyond what was approved by the 1995 legislature.

Studies in several states have shown that a large percentage of those in prison are non-violent property offenders who could be placed in intensive supervision programs within the community, thereby opening up more prison beds for violent offenders. At the same time, it is imperative to have an accurate profile of the correction population to determine what alternatives are the most appropriate, given a combination of public safety, cost, and individual offender treatment. While a true offender profile, taking into account the above factors, is not possible by simply looking at the type of crime for which an offender has been sentenced to the correctional system, it can provide some instruction. As can be seen in Table 8, burglary, theft, drug sales, bad checks and forgery amounted to approximately 51 percent of Montana's male prison admissions in 1994.

Among Montana's women offenders, Table 8 shows that of the six most frequent crimes, none are classified as crimes of violence.

In addition to cost savings, appropriate community based programs can provide several advantages to both the society and the rehabilitation of the prisoner. Because they are community based, the inmate has the opportunity to work, develop skills, and help pay for his/her state support. On the downside, failure of an alternative sentence to protect the public could quickly close community programs as an option. It is imperative that community based programs be closely monitored and that inmates placed in community programs be carefully screened.

Table 8
Percent of Montana Prisons Admissions Convicted of Non-Violent Crimes

	1994	1993	1992	1991	1990
Male Admissions					
Burglary	20.20%	17.50%	17.70%	18.20%	17.40%
Theft	17.60%	15.80%	18 00%	17.00%	15.70%
Drug Sale	3.90%	4.70%	4.50%	5.50%	8.50%
Bad Checks	4.10%	0.00%	4.10%	4.40%	0.00%
Forgery	5.70%	0.00%	0.00%	4.40%	4.50%
	51.50%	38.00%	44.30%	49.50%	46.10%
Female Admissions					
Burglary	6.70%	0.00%	4.10%	9.10%	3.90%
Theft	22.20%	24.30%	8.20%	20.50%	23.50%
Bad Checks	4.40%	10.80%	12.20%	13.60%	17.60%
Forgery	11.10%	18.90%	16.30%	9.10%	17.60%
Drug Sale	8.90%	5.40%	0.00%	2.30%	7.80%
Drug Possession	0.00%	5.40%	8.20%	9.10%	5.90%
	53.30%	64.80%	49 00%	63.70%	76.30%

Alternative sanctions include any punishment that is more restrictive that probation and less punitive than incarceration. These sanctions should reflect consideration for public safety, the nature and severity of the offender's background, and the impact of the crime upon the victim. Examples of alternative community sanctions include: fines; restitution; community service; halfway houses; drug, alcohol, or mental health treatment; house arrest using electronic monitoring devices; and intensive probation.

Parental Contributions for Incarcerated Juvenile Offenders

The Department of Corrections is presently receiving no revenue from parents of adjudicated youth offenders in the custody of the Montana Department of Corrections. Montana laws not only allow the collection of this revenue but require courts to examine a parent's financial ability to contribute toward the costs for care, commitment, and treatment of a youth committed to state custody. In a 1993 audit of the Montana juvenile justice system the Legislative Audit Division (LAD) recommended that the Supreme Court and the Department of Family Services establish parental contribution procedures to insure youth court compliance with the law.

A follow-up audit conducted in March of 1996 concluded that this recommendation had still not been implemented. According to the LAD, a sample of probation officers indicated little effort is expended on determination of parental contribution because of the complexity of the process.

However, state agencies involved claimed that the following factors impede the state's ability to collect from parents:

* The Child Support Enforcement Division (CSE) determined that they lacked sufficient authority to issue administrative orders necessary for collections. According to CSE, they are requesting clarification of this authority in proposed legislation.

* The Supreme Court claims it does not have the staff to draft rules nor has the court in the past drafted procedure rules for their own review. The legislature may wish to direct either the Department of Corrections or the Department of Justice to draft the necessary rules to implement the collection of support payments by the state.

* Neither the courts or CSE receive any of the revenue collected; consequently there is a lack of vested financial interest in cost recovery, aggravated by limited time and resources. The legislature may wish to allow that allocation of either some percentage of the total collections, or a set amount per case, be made to provide support for efforts of CSE and/or the court.

* The average juvenile offender is the state custody for less than four months. CSE does not feel that short term custody arrangements generate enough revenue to offset the costs involved in collecting from parents. However, since the amount collected by the state could be substantial, the CSE could work with district courts to simplify the procedure for short term custody cases.

The DOC is projecting a juvenile average daily population (ADP) in fiscal 1998 of 227 and in fiscal 1999 of 234 (Table 9). Assuming a parental contribution per day of $5 per day, or approximately $150 per month, the Department would collect approximately $414,275 in fiscal 1998 and $427,050 in fiscal 1999. (According to the Child Support Enforcement Division, the average parental support payment per child in Montana is $220 per month; however no data is available regarding the ability to pay of the average parent of a youth in juvenile custody.) Table 9 shows what revenues would be generated if this amount was increased to $7.5 and $10 per day. Since the time in state custody of the average youth committed to the DOC is less than 120 days, the typical parent of a youth in state custody would pay a of total $600, assuming a $5 per day rate.

Table 9
Populaton Projections - Institutional Juveniles

	Fiscal 1998	Fiscal 1999
Pine Hills	85	85
Mt Youth Alternatives	64	64
Transition Centers	31	38
Secure Care Females	16	16
Intensive Supervision	31	31
Total Projected Population	227	234
Days per Year	365	365
Total Inmate Days per Year	82,855	85,410
Average Parental Contribution	Revenue	Revenue
If $5 per day	$414,275	$427,050
If $7.5 per day	$621,413	$640,575
If $10 per day	$828,550	$854,100

Private Prisons

The use of private corporations to build and/or operate prisons has been growing rapidly in the United States over the last ten years. Montana is currently contracting with a private facility in Texas to house the prison population overflow. At least one private prison corporation is presently considering constructing a private prison facility in Montana.

Privatization of corrections services has many forms: 1) contracting for specific services (such as medical and food); 2) prison industries; 3) design and construction of facilities; and 4) management of prisons. In the last decade or so there has been a significant increase in the latter category, and many states are working with private prisons in the management of correctional institutions.

While the Executive Budget is not proposing the use of a private prison in Montana, private prisons are an element that the legislature will need to consider as a component of the overall solution to managing Montana's growing corrections population. In addition, the population management plan of the DOC includes contracting with the Dickens County facility in Texas to house as many as 500 inmates through at least 2001.

Operating Cost Comparisons

Whether the Montana Department of Corrections is able to operate its prison facilities for less than a private prison is difficult to determine. Following an analysis of the costs of housing inmates at Montana State Prison, the Legislative Audit Division issued the following statement regarding private prison vs state prison operating cost :

> ".....we do not believe the Department of Corrections currently has the capability to make a comprehensive comparison between a private proposal and ongoing operations at Montana State Prison (MSP) because detailed expenditure categories have not been developed and/or compiled. Additionally, the DOC is not able to identify or breakout operational costs on the basis of inmate classification. As a result, it would be difficult for example to compare a private medium security facility to MSP's medium security arrangement."

Unless the DOC is able to determine the true cost of housing an inmate, it is impossible to make an accurate comparison with alternative proposals. Without good cost data it becomes impossible to negotiate and/or report on the success or failure of a private prison proposal.

In addition, comparing the costs of public vs private prisons without considering the types of inmates being incarcerated can be misleading. Few, if any, private prison corporations will take maximum security inmates. Yet, custody costs increase as inmates require more intensive supervision, both within the institution and when the inmates are transported outside of the facility. DOC has not projected future cell needs according to inmate classification. To evaluate inmate facility options, projecting the types of inmates to be housed is essential for both DOC's management options and for evaluating proposals from the private sector. At this time, DOC is only sending those inmates classified as minimum or medium security to the private facility in Texas.

Advantages and Disadvantages

Private sector prisons do offer the DOC increased flexibility in its decision making. The costs of wrong public decisions are often not apparent until some future date, at which time the dismantling or changing of public policy is difficult. Private contractual arrangements permit government to more easily extract itself from inappropriate choices or to engage in experimental approaches to see if it works.

Opponents of privately operated prisons argue that the competitive private market forces are not in effect in the prison industry because only a few large firms dominate the private prison industry. Governments purchasing services in a provider dominated market would over the long run find it difficult to maintain control over costs. Thus, the short term advantages of greater flexibility and lower initial prices may be purchased at the expense of long term dependency and significant cost increases. Once the state has transferred custody to a private company, that company's negotiating power on future contracts is enhanced.

The state's reliance upon a company increases, and the state becomes more reluctant to jeopardize that relationship by rejecting the private contractor's demands or imposing stricter program and fiscal controls. If a private entity builds a private correctional facility and leases it to a governmental entity, while simultaneously operating it, the need for a long term commitment from the government is obvious. Such an arrangement, just from the economic aspect, limits the future options of a state government entering the contract.

There are conflicting studies concerning whether the use of private prison contractors actually saves money. The federal General Accounting Office (GAO) reviewed five major studies completed in recent years in which prisons operated by governments were compared to those run under contract to private firms. The five studies involved prisons in Texas, New Mexico, West Virginia, California, Tennessee, Louisiana and Washington. In most cases, no substantial differences were found between private and public facilities. Other studies claim that privately run prisons can save five to fifteen percent over a similar government run facility. A study for the Texas legislature said that private prisons saved that state more than ten percent, and, in addition, the private prisons contributed an estimated $400,000 each in state and local taxes.

Potential Legislative Action

In response to this growing industry and to the very real possibility that a private prison could be constructed in Montana, the legislature may want to consider legislation regulating private prisons. The legislature may also wish to determine what impact location of a private prison in Montana might have on dealing with Montana's current and projected corrections population. Legislation regulating private prisons and prisons other than state operated facilities would require the state to assume regulatory and oversight responsibilities

Among the many issues the legislature may want to consider are:

1) Should the state allow out-of-state inmates to be housed in private facilities within Montana? Can the state prevent a private facility from bringing out-of-state inmates to Montana?

2) What assurance would the state have that beds would be available for Montana inmates?

3) Who sets the standards for private correction facilities in Montana?

4) Who is responsible for tracking down escapees and quelling riots?

5) Who is responsible for compliance, oversight, and access to private prison facilities and records?

6) How can it be ensured that the citizenry will have input into where a private prison facility is located?

6401 01
Department of Corrections **Administration and Support Services**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	85.72	(3.00)	22.51	105.23	(3.00)	31.00	113.72	105.23
Personal Services	2,687,417	492,059	598,796	3,778,272	499,423	877,705	4,064,545	7,842,817
Operating Expenses	3,941,350	2,550,041	877,510	7,368,901	3,205,921	976,476	8,123,747	15,492,648
Equipment	64,312	43,330	1,683,923	1,791,565	3,536	695,440	763,288	2,554,853
Debt Service	72,247	(24,427)	21,000	68,820	(24,427)	100,450	148,270	217,090
Total Costs	$6,765,326	$3,061,003	$3,181,229	$13,007,558	$3,684,453	$2,650,071	$13,099,850	$26,107,408
General Fund	6,704,937	3,068,198	3,171,434	12,944,569	3,700,439	2,640,273	13,045,650	25,990,219
State/Other Special	1,871	2,519	0	4,390	(541)	0	1,330	5,720
Federal Special	0	0	9,795	9,795	0	9,798	9,798	19,593
Proprietary	58,518	(9,714)	0	48,804	(15,445)	0	43,073	91,876
Total Funds	$6,765,326	$3,061,003	$3,181,229	$13,007,558	$3,684,453	$2,650,071	$13,099,850	$26,107,408

Program Description

The Administration and Support Services Program includes the Director's Office, Administrative Services Division, Professional Services Division and the administratively attached Board of Pardons and the Montana Sentencing Commission. This program supports the department's mission by providing human resource, fiscal, legal, information, technical correctional services, policy and staff development, research, facility management, and access to health care services to the department's personnel and programs, government entities and the public.

The Board of Pardons, as part of the criminal justice process, serves all Montana citizens by administering a flexible system of punishment which fully protects society. All employees and members of the board are committed to securing the effective application of and improvements to the clemency and parole system as well as of the laws upon which they are based. The parole process is administered in an effective, humane, safe, and just manner.

Funding

General fund is over 99 percent of the funding source for Administration and Support Services. Proprietary funds are from the Prison Ranch, the Prison Industries Program, and the Industries Training Program. These funds are allocated for audit costs and other fixed costs. In addition, $10,000 per year of federal dollars are included in support of the Montana Sentencing Commission.

LFD Issue **- The Administration and Support Services program provides administrative functions (accounting, personnel, payroll, etc.) in support of all department programs. However, the proprietary funds supporting the prison ranch and dairy, and industries programs do not contribute to support this program other than for audit and fixed costs. The legislature may want to increase the contributions from other program revenue sources to support the Administration and Support Services Program.**

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6401 01
Department of Corrections
Administration and Support Services

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	521,882	529,246
02		Inflation/Deflation	137,811	222,809
03		Fixed Costs	610,716	525,412
		Total Statewide Adjustments	$1,270,409	$1,277,467
Significant Present Law Adjustments				
04	91001	Corrections Advisory Council	25,000	25,000
05	91002	Safety Program	14,552	14,552
06	91003	Outside Medical Costs	1,457,065	2,100,248
07	91046	Admin & Support Replace Equip	47,588	10,931
08	91055	Bop Replace Equipment	3,137	0
09	91060	Benefits	(31,173)	(31,173)
10	91061	Increase Fixed Costs	51,258	51,258
11	91062	Principal Payment	(24,427)	(24,427)
12	91063	Bopp Workload Increase	4,129	4,148
13	91064	Medical Services/Defender Proj	260,443	273,427
14	91065	External Medical Increase	35,585	35,585
		Total Significant PL Adjustments	$1,843,157	$2,459,549
Other Base Adjustments			($52,563)	($52,563)
		Grand Total Present Law Adjustments	$3,061,003	$3,684,453

LFD Comment **- Vacancy savings of 3 percent were applied to this program. Fixed costs increases of $610,716 in fiscal 1998 and $525,412 in fiscal 1996 are primarily a result of insurance and bonds, which increase approximately $425,000 over the base year. This program increases a total of 92.3 percent over fiscal 1996 expenditures, due primarily to two areas: 1) medical costs, and 2) data processing equipment replacement.**

4) Corrections Advisory Council - Governor Racicot, by Executive Order 13-95, created a Department of Corrections Advisory Council on December 11, 1995. The council is directed to actively work to improve the Montana corrections system by making recommendations regarding the corrections policy and programs of the state. The council is composed of 18 members. The funding request will increase the $5,000 base in fiscal 1996 general fund expenditures to provide a total budget for all council and subcommittee meetings of $30,000 per year. Quarterly meetings of the full council and 47 meetings of the 13 subcommittees are included in the estimate.

LFD Issue **- The council, as stated, was created by executive order, rather than by the legislature. Because the legislature did not authorize its creation, this request should be made in a new proposal. The legislature may also wish to consider requesting a report on the goals and objectives of the council.**

5) Safety Program - Since 1992 the department has had a safety program in place which has been certified by the State Fund. Of the $40,000 budgeted each year, $14,552 has been expended for safety equipment, a zero-based category. This equipment is being purchased as supervisors and staff increase their awareness that safety consciousness is essential to preventing costly injuries. In order to maintain compliance with the Safety Culture Act, the department requests general fund of $14,552 each year of the 1999 biennium to bring the level of safety funds up to the authorized level of $40,000.

LFD Comment **- The legislature may wish to consider requiring that the department submit an analysis of the incidence of worker injury as a result of these efforts and the corresponding impact on costs.**

6) Outside Medical Costs - This request is to increase operating costs to account for the average daily population (ADP) and catastrophic case increases associated with outside medical costs for the inmate population. The cost of providing medical services has never been adequately funded due to the inability to accurately project population numbers, serious inmate

altercations, catastrophic medical events, and the overall decline in the general health of inmates entering into the prison population. The projected general fund outside medical and catastrophic cost increases are $1,457,065 in fiscal 1998 and $2,100,248 in fiscal 1999.

LFD Issue **- The prisoner inmate population is projected by the executive to grow from 1,915 in fiscal 1996 to 2,259 in fiscal 1998 and 2,511 in fiscal 1999, a population growth rate of 17.96 percent and 31.12 percent over fiscal 1996 levels. Medical inflation rates were set at 5.6 percent for fiscal 1998 and 9.0 percent for fiscal 1999. Using the combination growth rates of inmate population and inflation, the present law increase for fiscal 1998 would be $468,703 for fiscal 1998 and $838,200 for fiscal 1999, a reduction from the Executive Budget of $988,362 for fiscal 1998 and $1,262,048 for fiscal 1999. Budget requests above inflation and population growths should be considered as a new proposal.**

7) Admin & Support Replacement Equipment - The corrections automation plan requires memory upgrades to achieve the Information Technology Information Committee (ITAC) minimum technology recommendations for old technology personal computers. This request also includes upgrades for existing file servers at a total general fund cost of $32,000 each year of the 1999 biennium. The Administration and Support Services Division request is for $70,657 in fiscal 1998 and $34,000 in fiscal 1999 to replace network printers, file cabinets, microfiche reader/printer and cabinet, air conditioners, technical police vehicles, interpretive electrocardiograph, criticare monitor, IV pumps, and oximeter. Equipment expenditures in fiscal 1996 were $55,069 and this recommendation reflects a net reduction of $47,588 in fiscal 1998 and $10,931 in fiscal 1999.

LFD Comment **- This request is an increase over the fiscal 1996 expenditures of $47,588 in fiscal 1998 and $10,931 in fiscal 1999.**

8) Board of Pardons and Parole Replace Equipment - The board's present phone system is antiquated and does not meet current needs. Board staff are unable to communicate effectively with each other within the office and frequently-used conference calls are difficult to set up and coordinate. Due to the increased volume of work, an additional line, phone, and voice mail are necessary. The general fund replacement cost of a new phone system is $4,985 in fiscal 1998. Equipment expenditures in fiscal 1996 were $1,848 so the net equipment increase is $3,137 in fiscal 1998 only.

9) Benefits -Benefits for overtime, Fair Labor Standards Act (FLSA) compensory time, and holiday payouts are requested for the Director's Office and Professional Services Division. Due to reorganization adjustments there is a reduction in the Director's Office and an increase of $51,859 in the Professional Services Division. There is a net general fund reduction of $31,173 each year of the 1999 biennium.

10) Increase Fixed Costs - Department of Administration, Information Services Division completed a survey of network devices in each agency and this information was used to establish the fixed costs for fiscal 1998 and fiscal 1999. The Department of Corrections has charges in fiscal 1997 of $46,166 more than what was budgeted for network devices. Funding is 99 percent general fund and 1 percent enterprise funds. In addition, a grounds maintenance charge of $5,092 general fund each year of the 1999 biennium was transferred from the Department of Public Health and Human Services (DPHHS) because a portion of the DOC building was billed to DPHHS in error.

11) Principal Payment - The base is reduced by $24,427 general fund each year of the 1999 biennium. The principal payment for the processing upgrade to the AS/400 computer expires in July 1997.

12) Board of Pardons and Parole Workload Increase - The board members are paid $50 per diem each day they are performing board business. It is anticipated members will spend 75 days on board-related issues for a general fund increase of $1,350 each year of the 1999 biennium. There is also an increase in the number of parole hearings which will increase

travel costs by approximately 19 percent for $2,668 general fund each fiscal year. Professional filing services will double due to the increase in inmate population and, combined with other services, the increase is $111 in fiscal 1998 and $130 in fiscal 1999.

13) Medical Services/Defender Project - There are 5.00 FTE proposed to be eliminated in the new proposal Reduce FTE for Medical Services and funds are to be transferred to contracted services in this program under present law adjustments. The general fund personal services reductions are $312,072 in fiscal 1998 and $312,941 in fiscal year 1999. The contracted services general fund increase in this program is $174,243 in fiscal 1998 and $187,227 in fiscal 1999.

In addition, the Medical Advisory Panel requires inmates who request elective medical procedures be reviewed and pre-approved by the panel, which operated for six months during fiscal 1996 and met three times. During the 1999 biennium, the panel anticipates meeting 12 times at a general fund cost of $7,200 each year. Third, the U of M defender project general fund expenses of $79,000 each year of the 1999 biennium were moved from the Community Services Program to this program.

LFD Comment **- The actual reduction requested is $302,711 in fiscal 1998 and $304,155 in fiscal 1999.**

14) External Medical Increases - Blue Cross/Blue Shield management fees increase $3,710 each year due to the anticipated average daily population (ADP) served. Prescription services reflect an increase of $31,875 each year of the 1999 biennium based on the fiscal 1997 contract.

6401 01
Department of Corrections **Administration and Support Services**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Corrections Automation Plan	5.63	2,160,166		2,160,166	7.50	1,404,615		1,404,615
02	Med/Mental Hlth Compl/Staff	14.63	792,862		792,862	19.50	892,487		892,487
03	Facilities Manager	0.75	36,736		36,736	1.00	46,524		46,524
04	Acct/Co-Pay Programs (Fte)	3.00	88,790		88,790	4.00	100,061		100,061
05	Mental Health/Personal Care		186,402		186,402		286,183		286,183
06	Reduce Fte For Medical Serv	(5.00)	(302,711)		(302,711)	(5.00)	(304,155)		(304,155)
07	Standardize Corr Training	0.75	55,036		55,036	1.00	63,121		63,121
08	Admin & Support New Equip		13,123		13,123		4,606		4,606
09	Continue Sentencing Commission	2.00	86,047	9,795	95,842	2.00	86,541	9,798	96,339
10	Bop Adm. Support	0.75	15,908		15,908	1.00	21,215		21,215
11	Training		1,875		1,875		1,875		1,875
12	Victim Notification		37,200		37,200		37,200		37,200
	Total For New Proposals	22.51	$3,171,434	$9,795	$3,181,229	31.00	$2,640,273	$9,798	$2,650,071

Executive New Proposals

1) Corrections Automation Plan - The Department of Corrections (DOC) has developed a five-year Information Technology Plan. After an extensive review of existing systems and a survey of needs expressed by field staff, a plan was developed to carry the department through the 2001 biennium. These plans include the development of additional modules as requested by the Legislative Finance Committee for the Adult Correctional Information System (ACIS), implementation of imaging

and barcode technology, and digital fingerprinting to be compatible with the Department of Justice (DOJ) and the federal government. Also recommended is hardware/software to provide an interface between the ACIS and DOJ Criminal History Record System (CHRS) to enhance the information available to local law enforcement through existing dispatch channels. These plans also include the installation of additional local area networks (LANS) for the department, the acquisition of additional PC and software, the upgrading of older technology machines to extend their useful life, acquisition of equipment to establish a training facility, and upgrade of certain existing network equipment. The general fund proposal includes 5.63 FTE and $2,160,166 in fiscal 1998 and 7.50 FTE and $1,404,615 in fiscal 1999.

LFD Issue **- The State of Montana has a major responsibility for and a significant financial investment in the gathering and maintenance of criminal records and data. As mentioned above, The Department of Justice operates the Criminal History Record System (CHRS), the Supreme Court is presently automating Montana's fifty-six district court systems to track court activities, the Department of Public Health and Human Services is enhancing the Child and Adult Protective Services system (CAPS) to capture data on juvenile offenders, and DOC maintains the Adult Correctional Information System (ACIS), which maintains records on all inmates sentenced to the custody of DOC. These systems were each developed independently of each other for the specific needs of the responsible agency. Consequently, much of the criminal data is not readily available from a single data source because of little or no communication between systems. Before the legislature appropriates significant amounts to upgrading the various criminal justice data systems throughout government, the legislature may want answers to the following questions: 1) how will the systems communicate with other systems? 2) will the data be accessible to other law enforcement agencies? and 3) how will the systems be coordinated among the participating agencies?**

The legislature may also request that a review of the criminal justice systems be undertaken to: 1) assess the state and local government criminal justice and corrections data needs; 2) recommend a standard software platform ; 3) make hardware recommendations; 4) present budget proposals; 5) present implementation time schedules; and 6) report on organizational responsibilities.

2) Compliance: Medical/Mental Health/Dental - This plan proposes implementation of legally adequate standards of care for mental health, medical, and dental services at all department-operated facilities. The request includes 14.63 FTE and general fund costs of $792,862 in fiscal 1998 and 19.50 FTE and $892,487 in fiscal 1999.

LFD Issue **- The DOC is attempting to reduce outside medical costs by upgrading internal medical facilities and treating and diagnosing more inmate patients at the prison infirmary, rather than transporting them to outside medical facilities. Therefore, if this proposal is implemented, it should reduce outside medical costs. At the same time, the department is requesting a significant increase for outside medical costs beyond expected inflation or inmate population growth factors (see the Executive request Present Law section). The legislature may want to consider a reduction in the budget for outside medical costs as a condition of approval of this proposal.**

3) Facilities Manager - This proposal is for the establishment of a position responsible for the overall management of the physical facilities of the campuses of the DOC. A facilities manager will assure the department of operational and maintenance efficiency, while simultaneously providing the expertise necessary for the department director to use in forming the future long-range buildings plans and facility needs of the department. Total general fund cost is for 0.75 FTE and $36,736 in fiscal 1998 and 1.00 FTE and $46,524 in fiscal 1999.

4) Administration & Support Services Accounting Co-pay - The department requests general fund to provide 3.00 FTE in fiscal 1998 and 4.00 FTE in fiscal 1999 administrative support staff to Administrative and Support Services and MSP. The

department supports using co-pay programs to reduce the frivolous use of medical programs and make offenders partially responsible for the cost of recreational programs. Added FTE will enable the business office to remove inmates from functions that have the potential to affect the safe and orderly operation of the institution and reduce the impact of inmate turnover. The co-pay program will require significant programming changes in the Resident Accounting System (RAS) and the development of local programs to aid in information gathering and reporting relative to co-pay programs. The general fund cost is $88,790 in fiscal 1998 and $100,061 in fiscal 1999.

LFD Issue **- The practice of requiring prisoners to share in the costs of the medical services they receive has been instituted in several other states as a means of reducing over-utilization of health care services in prison. However, one concern of the copayment system is that a copayment requirement may dissuade a prisoner from seeking necessary treatment, or thus delaying early treatment that would avoid higher treatment costs later. If copayment requirements result in more expensive treatment later because earlier attention was not sought, they may not be cost effective. Given the small volume of revenue anticipated to be collected, it appears to require an inordinate amount of staff time in collecting the copayment charges. The DOC needs to demonstrate that savings associated from requiring copayment can offset the cost of administering the copayment system.**

5) Mental Health/Personal Care - Individualized release planning is needed for inmates with chronic health problems as well as for inmates with serious mental health problems. At an estimated cost of $1,800 per month, per bed, this plan provides 10 community personal care beds in fiscal 1998 and 15 beds in fiscal 1999. It also reserves three community mental health group home beds in each year of the 1999 biennium for community transition of male and female inmates. Total general fund cost of the plan is $186,402 in fiscal 1998 and $286,183 in fiscal 1999.

LFD Issue **- The legislature may wish to consider legislation facilitating a medical parole program for permanently incapacitated and terminally ill inmates. Once an inmate is paroled, Medicare or Medicaid would be available to fund a portion of a patient's medical costs. Medicaid is currently funded on a 70 percent federal, 30 percent state share. This benefit is not available to incarcerated people.**

6) Reduce FTE for Medical Services - The purpose of this request is to eliminate 5.00 FTE each fiscal year of the biennium and transfer the funds into contracted services. Professional Services Division will contract for dental services for Montana State Prison (MSP) and Women's Correctional Center (WCC) and for the Blue Cross/Blue Shield medical contract. Operational costs for the contracted medical services will be budgeted in the Professional Services Division. The general fund reduction in medical services FTE is approximately $302,000 each year of the 1999 biennium.

7) Standardize Corr Training - This program establishes an ongoing standardized entry level corrections training program that will be completed by county detention officers, detention officers employed within regional jails, state corrections officers from MSP, and correction personnel from other facilities operated by the DOC. In order to train all newly hired corrections officers with the new program, six three-week training sessions must be conducted annually at the Montana Law Enforcement Academy (MLEA) in Helena. The training will be without charge for meals and lodging at the MLEA. The DOC will provide two trainers for the program. A $25 per student record keeping fee will be assessed to each of the 180 student which will generate approximately $4,500 in general fund MLEA income annually. General fund cost of this program is 0.75 FTE and $55,036 in fiscal 1998 and 1.00 FTE and $63,121 in fiscal 1999.

8) Admin & Support New Equipment - There is $13,123 in fiscal 1998 and $4,606 in fiscal 1999 general fund recommended for new equipment in the Administration and Support Services Division. A photocopier and specialized electronic intelligence equipment for the Investigation Unit are the priority equipment needs.

9) Continue Sent. Commission - The 1995 legislature created the Montana Sentencing Commission on March 31, 1995, under HB 357. The commission was specifically mandated to decide whether sentencing guidelines are advisable in Montana and, if so, to draft the guidelines. This request is to continue the 2.00 FTE and the work of the Montana Sentencing Commission at a general fund cost of $86,047 in fiscal 1998 and $86,541 in fiscal 1999. A federal grant of approximately $9,000 each year will fund the remaining program needs.

LFD Comment - **The Commission voted to recommend that the legislature not implement sentence guidelines at this time. The Commission will recommend to the legislature that it remain in existence through the 1999 biennium for four primary purposes: 1) continue to collect data on criminal sentencing practices; 2) develop voluntary sentencing guidelines for use on an experimental basis; 3) develop recommendations to the 1999 legislature for a simpler, more understandable sentencing system; and 4) continue providing an educational function for the public and government officials.**

10) Board of Pardons and Parole Admin Support - This request will provide additional administrative support to the Board of Pardons and Parole members and staff. The board is currently contracting for additional support staff due to budget constraints, but contracted staff without supervision is inadequate for ongoing program needs. The general fund cost for 0.75 FTE is $15,908 in fiscal 1998 and 1.00 FTE and $21,215 in fiscal 1999.

LFD Issue - **If the legislature approves this position, it may consider reducing the Board's operating budget by the amount of the contract for additional support services in fiscal 1996.**

11) Board of Pardons and Parole Training - Recent events have shown that training should be an integral part of correctional programs. Litigation can be mitigated by training through increased knowledge and proven effectiveness. The board requests $1,875 general fund each year of the 1999 biennium for board and staff training.

12) Victim Notification System - The executive budget contains a proposal to bridge a gap between the criminal justice system and the victim. The Automated Victim Notification (AVN) system will link the DOC to victims to provide accurate, timely, and direct communication. The moment an inmate status changes, specified victims will be notified through an automated process which gives them sufficient time to take precautionary, possibly life-saving measures. AVN will be an automated service which alerts victims upon escape or release of an inmate and provides custody information via the telephone on a 24-hour-a-day basis at a general fund cost of $18,600 each year of the biennium. The other half of the $37,200 will be paid by counties.

6401 02
Department of Corrections — **Community Corrections**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	199.25	(0.25)	24.01	223.01	(0.25)	47.50	246.50	223.01
Personal Services	6,479,510	500,623	609,702	7,589,835	527,187	1,227,364	8,234,061	15,823,896
Operating Expenses	9,085,598	1,317,572	402,744	10,805,914	908,714	723,082	10,717,394	21,523,308
Equipment	236,418	(192,188)	185,133	229,363	(208,218)	74,298	102,498	331,861
Grants	0	0	0	0	5,366,770	0	5,366,770	5,366,770
Benefits and Claims	4,616,119	2,563,548	0	7,179,667	(2,803,222)	0	1,812,897	8,992,564
Debt Service	864	23,919	37,590	62,373	52,399	65,000	118,263	180,636
Total Costs	$20,418,509	$4,213,474	$1,235,169	$25,867,152	$3,843,630	$2,089,744	$26,351,883	$52,219,035
General Fund	20,014,252	4,236,012	1,193,277	25,443,541	3,868,036	2,039,348	25,921,636	51,365,177
State/Other Special	132,329	(34,263)	41,892	139,958	(35,486)	50,396	147,240	287,197
Federal Special	271,928	11,725	0	283,653	11,079	0	283,007	566,661
Total Funds	$20,418,509	$4,213,474	$1,235,169	$25,867,152	$3,843,630	$2,089,744	$26,351,883	$52,219,035

Program Description

The Community Corrections Program includes adult probation and parole and juvenile parole, male and female community corrections programs, interstate compact, the boot camp, juvenile transition centers and juvenile out-of-home placements. This program supports the department's mission by providing appropriate supervision and alternative programs for adult and juvenile offenders.

Funding

Funding for the Community Corrections Program is 98 percent general fund. State special revenue funds of $139,958 in fiscal 1998 and $146,7239 in fiscal 1999 are from probation and parole fees collected from parolees to help defray the cost of parole supervision. In addition, various federal grants total approximately $283,000 each year of the biennium.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the

6401 02
Department of Corrections — Present Law Adjustments/Issues
Community Corrections

		Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	431,802	456,782
02		Inflation/Deflation	30,667	37,633
03		Fixed Costs	(48)	(48)
		Total Statewide Adjustments	$462,421	$494,367
Significant Present Law Adjustments				
04	91004	Pre-Release Expansion	2,127,389	1,688,097
05	91005	Yep/Transition Adjustments	32,495	31,933
06	91006	Juvenile Out-Of Home Care	2,498,121	2,498,121
07	91047	Comm Corr Replace Equip	(192,188)	(208,218)
08	91050	Community Cor Lease Vehicle Replaceme	24,000	52,480
09	91067	Benefits	50,089	50,620
10	91068	Board And Room	(1,898,118)	(1,898,118)
11	91069	Boot Camp Conversion	(14,859)	(13,934)
12	91072	Administration Adjustments	(82,927)	(82,927)
13	91076	Reorganization Adjustments	(25,643)	(24,972)
14	91077	Mya Adjustments	1,235,530	1,264,509
		Total Significant PL Adjustments	$3,753,889	$3,357,591
Other Base Adjustments			($2,836)	($8,328)
		Grand Total Present Law Adjustments	$4,213,474	$3,843,630

executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Pre-release Expansion -This proposal provides beds in the community by assisting community correctional facilities with start-up costs to expand their programs, and to increase operating costs to account for the full utilization of community corrections beds in the 1999 biennium. The additional 87 beds will provide an alternative to incarceration at the Montana State Prison (MSP) and Women's Correctional Center (WCC). The State of Montana will contribute 25 percent of the equity required by banks for start-up costs. The general fund cost is $2,127,389 in fiscal 1998 and $1,688,097 in fiscal 1999.

LFD Comment **- The 1995 legislature authorized an ADP level for pre-release of 460 by fiscal 1997. As of the end of fiscal 1996, the pre-release population was 303. Because the legislature authorized 460 ADP for the 1997 biennium, this increase is budgeted as a present law adjustment. The department was unable to develop all the planned pre-release centers due to difficulty locating sites and developing facilities. DOC is now projecting a pre-release ADP of 409 in fiscal 1998 and 419 in fiscal 1999.**

5) YEP/Transition Adjustments - The department will acquire an additional 2,000 square feet at the juvenile transition center for boys in Billings to allow for enlarged program space, a better-equipped food service area, and more reasonable accommodations for the client population. The expansion is recommended to address safety and security needs of the program. General fund adjustments include: rent and utilities budgeted at $7,240 each year; overtime and holidays worked at $5,358 in fiscal 1998 and $3,986 in fiscal 1999; professional services contracts of $4,802 each year; laboratory testing; housekeeping, janitorial and food supplies of $15,166 for fiscal 1998 and $15,976 for fiscal 1999; and a slight decrease in administrative costs of $71.

6) Juvenile Out-of-Home Care - The department is mandated to provide for the care, protection, and mental and physical development of youth alleged to be youth in need of supervision or delinquent youth who are referred or committed to the department as provided in 53-1-201, MCA. The department also is mandated to provide funding for and place youth who are alleged or adjudicated to be delinquent or in need of supervision and who are referred or committed to the department as provided in 53-1-203, MCA. Fiscal 1996 actual expenses, including supplemental costs, are approximately $7,723,595. The Executive Budget recommends a total of $7,179,667 general fund each year of the biennium with $4,681,546 in the base budget and the remaining $2,498,121 in this present law adjustment. Cost-sharing for Managing Resources Montana (MRM) clients by Department of Public Health and Human Services (DPHHS) and efficient case management by regional supervisors are expected to generate some cost savings from the total fiscal 1996 expenditures. The department has developed a database of clients served through the foster care budget and this list is updated and distributed monthly, thereby allowing supervisors, case workers, and placement committee members to understand the financial ramifications of youth services recommended. The department is unable to estimate costs of unforseen court adjudications and, therefore, this could be a future supplemental item.

There are changes in legislation being proposed that will allow the department to establish a process for distributing these funds to the judicial districts in the form of "Communities Against Delinquency Grants". These grants would allow each judicial district the flexibility to spend its grant funds as deemed appropriate to establish community resources to meet the needs of their own juvenile population. It is expected that, with each judicial district managing its grant monies at a local level, youth placement committees will make decisions based on the needs of the juvenile and the available community resources. The department will retain a portion of the placement funds to provide for placements for juveniles coming out of either Pine Hills School (PHS) or the long-term female facility who are not able to return to their own homes. It is planned that these community grants would begin by January 1, 1998.

LFD Issue - DOC expended a total of $8.1 million in fiscal 1996 for juvenile out-of-home care. Included in this expenditure was a general fund supplemental of $2.3 million. Table 10 shows the breakdown of juvenile out-of-home expenditures for fiscal 1996 and how they were funded.

Table 10
Juvenile Out Of Home Care
Fiscal 1996 Actuals Expenditure and Funding Sources

	HB2 Gen Fund	HB2 Federal	Approp Transfer	Budget Amend	Supplemental	Total
Clothing Allowance	$4,682	$0	$318	$600	$3,411	$9,011
In-State family	102,133	0	6,945	13,083	31,806	153,967
Group Home	736,724	0	50,096	155,548	203,124	1,145,491
shelter Care	559,454	0	38,042	50,353	174,666	822,515
In-State Residence	727,194	0	49,448	204,102	104,254	1,084,998
Out-State residence	1,409,633	45,974	114,818	84,075	304,354	1,958,855
Support Services	96	0	0	0	221	
Supp'l services	278,823	14,993	0	0	119,523	413,338
Pine Hills Sex Offender	332,572	0	0	0	0	332,572
Female secure care	100,000	25,030	13,484	0	423,926	562,440
Sex Offender Treatment	481,000	130,383	32,395	0	928,885	1,572,663
Total	$4,732,311	$216,380	$305,545	$507,761	$2,294,170	$8,055,850

DOC is requesting $7.5 million each year of the 1999 biennium for out-of-home care, or about $500,000 less than what was expended in fiscal 1996. The department maintains that better case management and cost sharing with DPHHS for MRM clients will result in some savings. Still, the department states that because of unforeseen court adjudications there could a future supplemental.

DOC is planning to distribute these funds as grants to communities. In the past, they were paid out directly by the department to the provider of the youth services on a per youth basis. The department plans to retain a portion of these grants to be used to create a secure care facility for juvenile females. With the closing of Mountain View School, the state has no facility to provide long term secure care for females.

Table 11
Juvenile Out Of Home Care
1999 Biennium Requests by Funding Sources

	HB2 Gen Fund	HB2 Federal	Present Law Adj	Total
Clothing Allowance	$4,682	$0	$0	$4,682
In-State family	102,133	0	0	102,133
Group Home	736,724	0	0	736,724
shelter Care	559,454	0	0	559,454
In-State Residence	727,194	0	0	727,194
Out-State residence	1,409,633	45,974	490,517	1,946,124
Support Services	96	0	0	96
Supp'l services	278,823	14,993	0	293,816
Pine Hills Sex Offender	332,572	0	0	332,572
Female secure care	100,000	25,030	507,604	632,634
Sex Offender Treatment	481,000	130,383	1,500,000	2,111,383
Total	$4,732,311	$216,380	$2,498,121	$7,446,811

The DOC provides no information regarding the number of youth projected to be in need of out of home care or average length of stay, or justification as to why these costs are expanding. In order for the legislature to know why this growth in youth placement is happening, the department should report on how these budget projections were determined, what alternatives exist, and what the DOC is doing to control this growth.

7) Community Corrections Replacement Equipment - Fiscal 1996 equipment expenditures were $236,418. The boot camp and juvenile transition centers request the replacement of washers and dryers, mattresses, refrigerator, computers, and printers at a cost of $44,230 in fiscal 1998 and printers at a cost of $28,200 in fiscal 1999. Community corrections administration and probation and parole are not requesting equipment in the 1999 biennium so the net general fund reduction is $214,188 in fiscal 1998 and $230,218 in fiscal 1999.

8) Leased Vehicle Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $24,000 in fiscal 1998 for four sedans and four utility vehicles and $23,040 in fiscal 1999 for four sedans and four utility vehicles. In addition, there is 29,440 in fiscal 1999 to continue the first year vehicles. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $5,370 in fiscal 1998 and $10,862 in fiscal 1999 for gasoline and maintenance cost savings. The replacement vehicles will be based in Billings, Missoula, Kalispell, Havre, Bozeman, Polson, Great Falls, Butte, and Sidney for probation and parole officers. Refer to the department of Transportation (MDT) State Motor Pool narrative for the statewide information on leased vehicles.

9) Benefit Adjustments - Benefits for overtime, FLSA compensatory time, and holiday payout are requested for community corrections administration, the boot camp, and probation and parole at a general fund increase of $50,089 in fiscal 1998 and $50,620 in fiscal 1999.

LFD Comment **- These benefits have not been budgeted in prior years, and the department absorbed these costs in the regular budget.**

10) Board and Room - The executive recommends $109,498 each year to account for renovation costs at pre-release facilities. Payments were not made in fiscal 1996 due to delays in site selection and financing arrangements. Also MSP inmate hold costs of $2,007,616 were erroneously coded in this program instead of to the Secure Care Program. This adjustment moves the costs to secure care and reflects a net reduction of $1,898,118 each year of the biennium in this program.

11) Boot Camp Conversion - All drill instructors are required to participate in training at an out-of-state training academy. Due to an increase in offender population and anticipated staff turnover with the move to the Deer Lodge valley, the increased general fund cost for personal services benefits, training, and recruitment are budgeted at $13,256 in fiscal 1998 and $14,181 in fiscal 1999. Reductions of $28,115 each year in contracts, insurance and bonds result in a net decrease of $14,859 in fiscal 1998 and $13,934 in fiscal 1999.

12) Administration Adjustments - The University of Montana Defender Project, which provides legal representation to inmates, is transferred to the Administration and Support Services Program for the same cost of $79,000 each year. Service contracts are recommended to increase 1.5 percent, other contracts were not requested to be renewed, and minor negative adjustments reflect a decrease of $3,927. The total net adjustment is a reduction of $82,927 each year of the 1999 biennium.

13) Reorganization Adjustments - Chemical dependency and mental health counseling is provided for probation and parole clients to assist with community support after treatment within corrections institutions. The Executive Budget recommends these contracts increase 1.5 percent each year. Other holding costs were erroneously coded to this program resulting in a net decrease of $25,643 in fiscal 1998 and $24,972 in fiscal 1999.

14) MYA Adjustments - This Montana Youth Alternatives (MYA) Program recommendation increases overtime and holidays worked at a cost of $3,949 each year. MYA provides several professional services through contracts with wilderness, residential, and aftercare in the ASPEN program, psychological services, registered nurses, and medical services which are budgeted to increase by $1,228,899 in fiscal 1998 and $1,257,876 in fiscal 1999. Relocation of the Orientation Program to Boulder will require additional food service expenses, travel, and long-distance telephone funds of $36,913 each year. Through reorganization, expenses moved to Administration and Support Services are: $34,229 in insurance and bonds, temporary services, data network charges, supply purchases for meals, and indirect costs. The total net increase to the program is $1,235,530 in fiscal 1998 and $1,264,509 in fiscal 1999.

LFD Issue - This request is for the contract with the private Aspen corporation to operate the wilderness, residential and aftercare portions of the Montana Youth Alternative Program. As shown in Table 12, the department expended a total of $1,495,331 for this contract in fiscal 1996. Of this total, $821,732 was expended from a general fund supplemental. The DOC is now requesting as present law a budget of $1,909,129 for fiscal 1998 and $1,938,108 for fiscal 1999. (The adjustment shows a $1.2 million increase because the base does not include the supplemental expenditures.)

Table 12
Montana Youth Services
Aspen Contract: Fiscal 1996 Expenditures

	HB2 Gen Fund	Supplemental Supple	Total
Wilderness	$193,096	$568,356	$761,452
Residential	388,439	196,593	585,032
Aftercare	92,064	56,784	148,848
Total	$673,599	$821,732	$1,495,331

Aspen Contract
1999 Biennium Budget Request

Fiscal 1996 Gen Fund	Fiscal 1998 Pre Law Adj	Fiscal 1998 Total	Fiscal 1999 Pre Law Adj	Fiscal 1999 Total
$673,599	$1,235,530	$1,909,129	$1,264,509	$1,938,108

The DOC is projecting an ADP of 48 youths for the MYA program during the 1999 biennium. This is a cost per ADP of over $65,000 per year for the MYA program. By comparison, the cost per ADP at the adult boot camp was $41,750 in fiscal 1996 and the cost per ADP at the Pine Hills School was $51,720. In addition the department is now planning to fund a new secure care facility for females which the Department of Family Services, the agency responsible for juvenile programs at the time, indicated was not needed during testimony supporting the closure of Mountain View School. At this time, no research exists on graduates of the program to determine if the program is successful in reducing recidivism.

The executive is requesting a supplemental appropriation for this program, as well as other juvenile programs in fiscal 1997. For further discussion, please see the "Supplemental" section of this narrative.

6401 02
Department of Corrections **Community Corrections**
Executive Budget New Proposals

New Proposal Description		Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01	Btc/Yep/Transition Centers Exp	13.13	370,855		370,855	27.00	756,133		756,133
02	Probation/Parole Staff	8.25	363,643	41,892	405,535	17.00	665,462	50,396	715,858
03	Ccf Inflation Rate (1.5%)		80,727		80,727		178,773		178,773
04	County Jail Inflation (1.5%)		29,953		29,953		34,170		34,170
05	Foster Care Inflation Rate		103,536		103,536		207,072		207,072
06	Comm Corr New Equip		71,661		71,661		6,231		6,231
07	Leased Vehicles - New		37,590		37,590		65,000		65,000
08	Transportation Officers	2.63	135,312		135,312	3.50	126,507		126,507
	Total For New Proposals	24.01	$1,193,277	$41,892	$1,235,169	47.50	$2,039,348	$50,396	$2,089,744

Executive New Proposals

1) BTC/YEP/Transition Centers Expansion - The state lacks transition residential community setting for juvenile females. The executive proposes to provide that environment and allow seven juvenile females community residential incarceration by providing counseling, direction, and assistance in developing skills necessary to become contributing members of society. One new transition center is requested each year of the 1999 biennium. This request also includes additional staff for the transition center in Billings and the Youth Evaluation Program in Great Falls to provide double coverage 24 hours per day and relief for current staff. The department requests 13.13 FTE in fiscal 1998 and 27.00 FTE in fiscal 1999 along with operating expenses to support the services. Total general fund costs would be $370,855 in fiscal 1998 and $756,133 in fiscal 1999.

LFD Issue **- This proposal is for one juvenile female transition center for each year of the biennium and one juvenile male transition center for fiscal 1999. The proposed budget for each center is approximately $320,000 per year of operation. Each center is intended for a population of 7.0 ADP, at per ADP cost of nearly $46,000 per year or $125 per day.**

2) Probation and Parole Staff - This proposal will provide for probation and parole (P&P) services responsive to workloads that continue to increase. Also, a recent legislative audit recommends the officers perform more home visits on their clients. An increased level of contact will provide greater safety for the community and will require additional officers. In addition to the P&P officers, the department requests an additional P&P officer II to provide supervision to POIs, audits, hearings, and performance evaluations for the Regional Administrator. The request includes 8.25 FTE in fiscal 1998 and 17.00 FTE in fiscal 1999. A portion of this proposal includes 4.00 FTE financial specialists support staff to the regional administrators and juvenile parole officers in the state. Funding these specialists positions will allow juvenile parole officers to focus more on the needs of their clientele, allow for greater accountability, and provide a greater level of public safety. Total general fund cost of the request is $363,643 in fiscal 1998 and $665,462 in fiscal 1999. The remaining funding is P&P supervisory fee.

LFD Comment **- A review of 1996 caseloads of regional P&P officers indicates the caseloads shown in table 13. According to DOC, an acceptable caseload for P&P officers in approximately 70 offenders. The DOC**

population management plan projects that total population for probation and parolees will increase from 4,993 in fiscal 1996 to 5,469 in fiscal 1998 and 5,724 in fiscal 1999.

Table 13
P&P Caseloads by Region
Fiscal 1996

Region	City	Average Caseload
I	Missoula	90
II	Helena	85
III	Great Falls	83
IV	Billings	81
V	Kalispell	94

3) Community Corrections Facilities Inflation Rate - The purpose of this request is to increase operating costs to account for inflationary increases associated with community corrections beds provided through service contracts in the 1999 biennium. The provider rate increase recommended is 1.5 percent each year of the biennium with a general fund impact of $80,727 in fiscal 1998 and $178,773 in fiscal 1999

4) County Jail Inflation - The purpose of this proposal is to provide additional funding for local jail incarcerations for parolees, pre-release inmates, and offenders committed to the department. Due to growth in inmate population, the department is requesting general fund of $29,953 in fiscal 1998 and $34,170 in fiscal 1999.

LFD Comment **- The county jail inflation is calculated using a 1.5 percent annual increase for inflation. Population projections for county jails used in this calculation were 132 ADP in fiscal 1998 and 76 ADP in fiscal 1999. The DOC population management plan of Nov 4, 1996 projects the county jail holding for fiscal 1999 at 109 ADP. Using this ADP for fiscal 1999, the amount needed would be $49,007. A 1.5 percent increase for various providers is also requested in the Department of Public Health and Human Services.**

5) Foster Care Inflation - The purpose of this request is to account for 1.5 percent inflation rate increases associated with juvenile placements in the 1999 biennium. The general fund increase is $103,536 in fiscal 1998 and $207,072 in fiscal 1999.

6) Community Corrections New Equipment - The Executive Budget recommends $71,661 in fiscal 1998 and $6,231 in fiscal 1999 to fund a telephone system for the new boot camp at Deer Lodge, computers, printers, and licenses at $16,800 in fiscal 1998, and miscellaneous office equipment for the Community Corrections Division.

7) Leased Vehicles New - The executive recommends that 11 sedans and 1 van in fiscal 1998 and 9 sedans and 1 van in fiscal 1999 be obtained for this program through a State Motor Pool lease at a budgeted cost of $37,590 in fiscal 1998 and $65,000 in fiscal 1999. The vehicles will be based in Havre, Kalispell, Billings, Missoula, Great Falls, Helena, Deer Lodge, Bozeman, Butte, and Hardin for probation and parole officers. Refer to the Department of Transportation (MDT) State Motor Pool narrative for the statewide information on leased vehicles.

8) Transportation Officers - The department requests 2.63 FTE and $135,312 general fund in fiscal 1998 and 3.50 FTE and $126,507 in fiscal 1999 to provide adequate and safe transportation services for juvenile parole officers who are returning juvenile offenders to correctional facilities and/or other residential placements in the state.

LFD Comment **- DOC currently has a 0.5 FTE transportation officer. This proposal will create a total of 4.0 FTE, two in the eastern half of the state and two in the western half.**

6401 03

Department of Corrections — **Secure Facilities**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	588.80	0.00	55.63	644.43	0.00	120.39	709.19	644.43
Personal Services	18,822,003	1,277,254	1,543,763	21,643,020	1,356,922	3,282,694	23,461,619	45,104,639
Operating Expenses	6,560,840	4,899,765	5,042,979	16,503,584	6,103,626	7,309,484	19,973,950	36,477,534
Equipment	269,337	35,531	277,504	582,372	(39,281)	374,368	604,424	1,186,796
Grants	22,259	32	0	22,291	32	0	22,291	44,582
Benefits and Claims	332,572	0	0	332,572	0	0	332,572	665,144
Debt Service	2,139	0	0	2,139	0	0	2,139	4,278
Total Costs	$26,009,150	$6,212,582	$6,864,246	$39,085,978	$7,421,299	$10,966,546	$44,396,995	$83,482,973
General Fund	24,519,177	6,281,372	6,864,246	37,664,795	7,494,172	10,966,546	42,979,895	80,644,690
State/Other Special	1,269,309	(70,817)	0	1,198,492	(72,754)	0	1,196,555	2,395,047
Federal Special	220,664	2,027	0	222,691	(118)	0	220,546	443,237
Total Funds	$26,009,150	$6,212,582	$6,864,246	$39,085,978	$7,421,299	$10,966,546	$44,396,995	$83,482,973

Program Description

The Secure Facilities Program includes the Montana State Prison, Women's Correctional Center and Pine Hills School. This program supports the department's mission by providing public safety by holding adult and juvenile offenders in a humane, secure setting with emphasis on accountability, productivity, and an opportunity of habilitation.

Funding

Funding for the Secure Facilities Program is 96 percent general fund. State special revenue funds of approximately $1.2 million per year include revenue from the alcohol tax to support alcohol treatment programs, interest and income from state lands dedicated to the support of Pine Hills School, and revenues from inmates and the prison canteen fund. Miscellaneous federal grants total approximately $220,000 each year.

Executive Present Law

6401 03
Department of Corrections
Secure Facilities

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	866,380	946,048
02		Inflation/Deflation	147,080	210,849
03		Fixed Costs	0	0
		Total Statewide Adjustments	$1,013,460	$1,156,897
Significant Present Law Adjustments				
04	91008	Wcc Operating Costs	35,648	39,331
05	91009	Addictions Treatment Support	11,000	13,750
06	91011	Pine Hills Operating Costs	189,152	194,430
07	91012	Pine Hills Medical Adjustment	7,995	13,270
08	91013	Maintenance Request	374,000	410,600
09	91014	U.A. Lab Added Testing	7,000	7,000
10	91015	Instate Contracted Beds	2,176,424	3,260,651
11	91048	Secure Care Replace Equip	35,531	(39,281)
12	91070	Inmate Pay	70,000	70,000
13	91071	Msp Workload Increase	234,050	234,050
14	91073	Reorganization Adjustments	2,058,290	2,060,569
		Total Significant PL Adjustments	$5,199,090	$6,264,370
Other Base Adjustments			$32	$32
		Grand Total Present Law Adjustments	$6,212,582	$7,421,299

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) WCC Population Increase -This request is to increase operating costs at the Women's Correctional Center (WCC) to account for the increase in average daily population (ADP) over the anticipated level. Cumulative ADP was 52.57 for fiscal 1995 and 63.81 for fiscal 1996. The ADP as of September 30, 1996, is 70.55 and is projected to remain at this level in the 1999 biennium. Operating expenses based upon variable costs in fiscal 1995 will be $8.48 per inmate per day and a general fund increase of $15,476 each year of the 1999 biennium. Other adjustments include benefits for overtime of $12,766 each year and mental health, nursing, and prescription services of $7,406 in fiscal 1998 and $11,089 in fiscal 1999.

5) Addictions Treatment Support - The executive recommendation is to increase the current addictions treatment services offered at WCC through a contract for services with an existing treatment facility. This contract would allow for provision of services to more inmates without the addition of an FTE and would also expand the resources for various types of addiction treatment to include gambling, eating disorders, co-dependency, and relationships. Contracted service increases $11,000 in fiscal 1998 and $13,750 in fiscal 1999.

6) Pine Hills Population Increase - Miles City water and wastewater rates increased by approximately 20 percent as of July 1996. In addition, Pine Hills School (PHS) increased usage of water resulted from extended school programming and higher numbers of youth served. General fund increases $21,910 in fiscal 1998 and $23,663 in fiscal 1999 for water and sewer.

PHS has increased school days to include three months in the summer and will be educating students a full year. School increases include substitute pay for 12 teachers, utility costs, school psychological services, and supplies and materials. Also, for the vo-ag program started last session there is operating and minor equipment and Native American cultural and spiritual programming for about 25 percent of the PHS population. The request will provide salaries and travel for Medicine Men and a tepee for the program. Total general fund school costs are $81,659 in fiscal 1998 and $85,184 in fiscal 1999.

The program is experiencing decreases in personal services adjustments and insurance and bonds of $44,516 and increases in direct care of $130,099 each year of the 1999 biennium for a net increase of $189,152 in fiscal 1998 and $194,430 in fiscal 1999.

LFD Issue - **The direct care increase is a result of overtime and differential pay being adjusted to reflect the 1997 biennial pay plan. When the 1997 pay plan amounts were distributed to the agencies, overtime and differential pay were not considered in the distribution methodology. However, when an employee works overtime, the overtime paid is based upon the new pay plan salary; thus, agencies are forced to absorb the increases in overtime associated with the new pay plan. The direct care portion of this adjustment corrects this overtime shortfall. The legislature may want to include adjustments to overtime when considering future pay plans.**

LFD Issue - **This present law increase is justified on the basis of population increases at PHS. However, included in this present law adjustment are educational services and equipment not directly related to the population increase at PHS, including operating expenses and equipment for the vo-ag program and salaries and equipment for the Native American cultural and spiritual program.**

7) Pine Hills Medical Adjustment - This request will increase operating costs to account for inflation of outside medical costs. Outside medical costs continue to rise and are beyond department control. Historical inflation rates used by the Office of Budget and Program Planning (OBPP) in preparation of the 1999 biennium budget result in a general fund increase of $7,995 in fiscal 1998 and $13,270 in fiscal in 1999.

LFD Issue - **The base budget for Pine Hills School includes about $105,000 for medical expenditures and pharmaceuticals incurred in fiscal 1996. These base budget amounts for medical services were inflated by 5.6 percent for fiscal 1998 and 9.0 percent for fiscal 1999 and are included as part of the total shown as item 2 in the present law adjustment table. The Executive Budget does not justify why the Pine Hills School needs medical inflation rates greater than the approved amounts.**

8) Maintenance Request - This request is to provide maintenance to the buildings and grounds at MSP. Many of the buildings are in excess of 20 years old. The projects are not appropriate for the Long-Range Building Program but are too expensive to handle from the base operating budget. Planned projects include: retrofit refrigeration units, boiler replacements, intercom system replacements, door and lock replacements, window insulation and renovation, bed replacement, and exterior painting. General fund costs are $374,000 in fiscal 1998 and $410,600 in fiscal 1999.

LFD Issue - **The base budget for MSP includes $141,000 for maintenance expenditures incurred in fiscal 1996. If this additional requested mount is approved by the legislature, it should be made a one-time-only appropriation to ensure that this level of expenditures is not included in the base for budget consideration by the 1999 legislature.**

9) UA Lab Added Testing - The MSP operates a urine analysis lab for the purpose of testing inmate urine specimens for evidence of chemical use. Testing is necessary since most offenders at MSP are chemically dependent and are able to acquire small amounts of controlled substances while incarcerated. Urine testing is the only positive, cost-effective way to assure that those in chemical dependency programs have not been using drugs. Higher populations and more intense treatment for more offenders requires a general fund increase of $7,000 each year of the 1999 biennium.

10) Instate Contracted Beds - This present law adjustment will provide funding for regional jail contracts with Cascade and Dawson Counties in the 1999 biennium as well as provide funds for contracted county jail space for inmate overflow. The department projects a male institutional population of 3,054 by fiscal 1999. Of this population, 296 are anticipated to be housed in two regional prisons by the end of fiscal 1999, while the number of inmates housed in county jails is expected to decrease from 149 at fiscal year end 1997 to 109 by fiscal year 1999. This request would pay the regional prisons a daily rate of approximately $42 in fiscal 1998 and $50 in fiscal 1999 and county jails would receive an average of $41.06 each year

of the 1999 biennium. The general fund operating expenses requested are $2,176,424 in fiscal 1998 and $3,260,651 in fiscal 1999.

LFD Issue **- The Dawson county facility is projected to be available to take prisoners in fiscal 1999 and the inmate population for Dawson is projected at 35.9 ADP for fiscal 1999. Therefore, the above requests do not include the fully operational regional prisons. The DOC's population projections for the end of the 1999 are: 1) Cascade County Regional prison - 152 ADP for fiscal 1998 and fiscal 1999; 2) Dawson County regional prison ADP - 144 in fiscal 1999; and 3) county jail space ADP- 132 in fiscal 1998 and 109 in fiscal 1999. Assuming these populations and the daily rates charged listed above in the Executive Budget, the amount required for in-state contracted beds will increase by another $2 million per year for the 2001 biennium.**

LFD Issue **- The $50 per day rate is a 20 percent increase over the present rate. The DOC agrees to pay the regional jails a rate based upon the average daily cost of an inmate in MSP. Because of the large budget increases requested in the Executive Budget, DOC has projected that the average daily cost of an inmate will be $50 at MSP for the 1999 biennium. Therefore, the regional jails will see an increase in the amount they charge, even though there is no direct link between the daily cost of a inmate in MSP and an inmate in a regional facility.**

11) Secure Care Replace Equipment - This proposal for $304,868 in fiscal 1998 and $230,056 in fiscal 1999 will provide replacement equipment to an ever-expanding Secure Care Division. The replacement equipment is necessary for the continued safe operation of the facilities and to meet the needs of increased inmate population. Fiscal 1996 equipment expenditures were $269,337 so there is a general fund net increase of $35,531 in fiscal 1998 and a reduction of $39,281 in fiscal 1999.

12) Inmate Pay - Paying inmates for work performed enables inmates to perform duties that would otherwise have to be performed by staff at a higher cost. This request will increase inmate pay by $70,000 each year of the 1999 biennium using state special revenue inmate welfare funds.

13) MSP Workload Increase - This request will increase overtime, differential pay, and holidays worked and benefits at MSP. Cost of the increased benefits is $230,410 general fund each year of the 1999 biennium. Other adjustments include consulting costs of $4,925 in fiscal 1998 and $7,443 in fiscal 1999 and minor reductions of $1,285 each year of the biennium.

14) Reorganization Adjustments - Various expenditures for external secure care were erroneously coded in the Community Corrections Program during the reorganization process. This adjustment moves the costs and reflects a net general fund increase of $2,058,290 in fiscal 1998 and $2,060,569 in fiscal 1999.

LFD Comment **- The current reduction in the Community Corrections program, which should be a dollar for dollar offset, is listed as only $2,007,616 in present law adjustment #10 in that program. Therefore, there is an unexplained present law adjustment of $50,674 in fiscal 1998 and $52,953 in fiscal 1999.**

6401 03
Department of Corrections **Secure Facilities**
Executive Budget New Proposals

New Proposal Description		Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01	Contract Beds Unit	1.50	4,939,088		4,939,088	2.00	6,910,536		6,910,536
02	Msp Security/Support	27.75	834,414		834,414	37.00	1,040,376		1,040,376
03	Pine Hills Training		108,500		108,500		79,600		79,600
04	Relief Factor/Corr. Supervisor	3.38	100,244		100,244	4.50	130,405		130,405
05	Corr Treatment Spec/Admin Sup	0.75	32,263		32,263	1.00	33,629		33,629
06	Restitution/Direct Care Attend	0.50	4,360		4,360	0.50	22,675		22,675
07	Xanthopoulos Proposal					18.64	934,560		934,560
08	Checkpoint Fte	3.75	98,290		98,290	5.00	128,472		128,472
09	Security Fte For Laundry	2.25	58,974		58,974	3.00	77,084		77,084
10	Security Fte For Industries (F	2.25	96,474		96,474	3.00	77,084		77,084
11	Cook/Chill		60,000		60,000	15.00	415,943		415,943
12	Add	3.75	98,290		98,290	5.00	128,472		128,472
13	Forced Labor/Inmate Incentive	9.75	366,141		366,141	19.00	497,267		497,267
14	New 96 Bed Unit					6.75	414,396		414,396
15	Secure Care New Equip		67,208		67,208		76,047		76,047
	Total For New Proposals	55.63	$6,864,246		$6,864,246	120.39	$10,966,546		$10,966,546

Executive New Proposals

1) Contract Bed Unit -The demand for prison beds exceeds the current capacity of Montana State Prison (MSP). New projections based on actual fiscal 1996 admission information indicate a male institution population of 2,672 in fiscal 1998 and 3,054 in fiscal 1999. The DOC has transferred 251 inmates to the Dickens County Correctional Center in Spur, Texas, at a cost of $3.6 million a year to hold the inmates for three years. The move is designed to help ease overcrowding at the MSP and county jails around Montana. The general fund cost for 1.50 FTE records clerks and the out-of-state contract is $4,939,088 in fiscal 1998. There is budgeted 2.00 FTE and $6,910,536 in fiscal 1999.

LFD Issue **- According to DOC's inmate population projections, the male institutional population is expected to increase by over 1,000 inmates from fiscal 1996 (2,044 ADP) to the end of fiscal 1999 (3,054 ADP). DOC is anticipating contracting for an average of 312.5 in fiscal 1998 and 437.5 in fiscal 1999, with the fiscal 1999 year ending with 500 inmates out-of-state. The DOC population management plan projects that they will continue to contract for out-of-state beds through 2001, and apparently DOC has no long term plans to return all inmates to Montana facilities. Contracting for private beds does offer several advantages: 1) it buys time for the legislature to make long term plans; 2) it avoids committing the state to construction; and 3) costs of inmates are directly related to the number of inmates in private facilities and not to the operational cost of maintaining a state owned facility. On the downside, if Montana gets locked in to depending upon the out-of-state beds, and the demand for prison beds continues to grow, Montana may get locked into a spiraling inflation for out-of-state beds.**

Some states using out-of-state contracts for prison space have encountered legal challenges as to living conditions and displacement of inmates from their local states. Suits have been filed against the states by prisoners claiming poor conditions and unnecessary hardships. In a court case brought by New Mexico inmates over the conditions of their confinement, the U.S. District Court handed down a decision in January 1996 granting a temporary restraining order that forbade the state of New Mexico from sending more prisoners to Texas.

2) MSP Security/Support -The MSP is requesting additional staff to support its current and projected population as reflected in the DOC Management Plan. Funding of these positions will provide for more comprehensive security and programming, allow the department to meet its goals, and address the current and future inmate population. This proposal will require 27.75 FTE and general fund of $834,414 in fiscal 1998 and 37.00 FTE and $1,040,376 in fiscal 1999. The FTE include: 5 correctional supervisors, 17 correctional officers, 6 correctional specialists, 4 correctional treatment specialists, 3 teachers, and 2 administrative support.

LFD Issue **- DOC population projections show an ADP inmate population at MSP at the end of fiscal 1999 of 1,448, an increase of 226 inmates (18 percent) over the 1996 ADP of 1,222. The 1995 legislature approved the addition of 30 FTE correctional officers for the 1997 biennium. That FTE increase was to allow for 24 hour coverage on necessary posts. Over the two biennia the DOC is requesting staffing increases of 67 FTE, while the MSP inmate population is projected to increase during the same time period by 226, an increase of 1.0 FTE staff for every 3.3 additional inmates.**

3) Pine Hills Training - PHS is in the process of becoming American Corrections Association (ACA) accredited. This request is to provide training, policy compliance, safety and health programs, and equipment for the facility to eliminate possible litigation. General fund cost to complete the ACA accreditation is $108,500 in fiscal 1998 and $79,600 in fiscal 1999.

4) Relief Factor/Corr. Supervisor - The purpose of this request is to increase correctional supervisor staff and correctional officer staff at WCC to ensure essential shift coverage and accommodate essential relief factors. The department general fund request is for 3.38 FTE and $100,244 in fiscal 1998 and 4.50 FTE and $130,405 in fiscal 1999.

5) Corrections Treatment Specialists - This request will add a correctional treatment specialist (CTS) at WCC to assist with moral recognition treatment, life skills, parenting, and general counseling. The position would provide support for the other CTS and the chemical dependency counselor. General fund cost of the 0.75 FTE and associated operating expenses is $32,263 in fiscal 1998 and 1.00 FTE and $33,629 in fiscal 1999.

6) Restitution/Direct Care Attendants - This proposal is to provide PHS the capability to implement chemical restraints (pepper spray) which requires staff to be authorized and trained in its usage. The proposal also includes appropriate training to implement a sex offender treatment program in fiscal 1999 and a 0.50 FTE administrative support position to enhance the delivery of services. Total general fund cost of the training and a 0.50 FTE is $4,360 in fiscal 1998 and $22,675 in fiscal 1999.

7) Xanthopoulos Proposal - The department continues plans to utilize the Xanthopoulos building on the Warm Springs campus after the new Montana State Hospital construction project is completed. Since the Xanthopoulos building will not be ready for use until April, 1999, the proposed budget reflects two months of expenditures in fiscal 1999. The general fund request is for 18.64 FTE and $934,560 in fiscal 1999 to initiate use of the building.

LFD Comment **- This proposal is to turn over the forensics building (a.k.a. Xanthopoulos building) at Warm Springs to the DOC beginning in fiscal 1999. The DOC proposes to use the facility for the following purposes, totaling 148 beds: 1) intensive mental health treatment, 24 beds; 2) sexual offender treatment, 48 beds; 3) chemical dependency treatment, 52 beds; and 4) geriatrics/special needs, 24 beds. The LFD estimates that, if approved, this proposal will be annualized in the 2001 biennium at over $6 million general fund per year.**

8) Checkpoint FTE - This request is for additional FTE to reopen the checkpoint on the main road entering the MSP area to restrict unauthorized vehicles from gaining access to the prison and boot camp facility and to enhance the perimeter security of the institutions. General fund cost for the 3.75 FTE is $98,290 in fiscal 1998 and 5.00 FTE and $128,472 in fiscal 1999.

9) Security FTE for Laundry - The MSP high side laundry and vo-ed building are in need of 2.00 FTE relief positions to provide adequate security in and out of the building. The department also requests 1.00 FTE five-day post for the inmate property office. General fund cost of the 2.25 FTE is $58,974 in fiscal 1998 and 3.00 FTE and $77,084 in fiscal 1999.

10) Security FTE for Industries - MSP industries compound currently provides job assignments for 300 inmates within the single fence compound without security correctional officer supervision. MSP has a request in the long-range planning budget to construct an inmate dry room or change house in the near future. This change house will be used to shakedown and check inmates in and out of the industries compound. A 1991 security audit by the National Institute of Corrections recommended that the department provide security personnel to supervise the industries compound. A general fund increase of 2.25 FTE and $96,474 in fiscal 1998 and 3.00 FTE and $77,084 in fiscal 1999 is recommended for this purpose.

11) Cook/Chill - The department is planning to complete construction on a Cook/Chill kitchen at the MSP by no later than October, 1998. This request is to fund the FTE's and equipment necessary to operate the new facility at that time. The plan is to feed all locations at MSP as well as Montana State Hospital at Warm Springs. The state will realize a savings by more efficient inventory management, less waste, and using fewer FTE to prepare meals to the populations at both locations. The system could also provide meals to other facilities in the area. The estimated general fund cost is $60,000 in fiscal 1998 and 15.00 FTE and $415,943 in fiscal 1999.

LFD Comment **- In fiscal 2000, the cook/chill kitchen will be in service to the Montana State Hospital. This should result in an FTE reduction for the MSH beginning in the 2001 biennium. The DOC should identify how many FTE's will be reduced as a result of this new proposal.**

12) Inner Perimeter Security Team- MSP is currently operating an inner perimeter security team consisting of five correctional officers and a correctional supervisor. This team has been highly effective in reducing contraband and in deescalating problems inside the institution. The team, because of size, is only operating on a limited time basis. The request will enable the team to operate seven days a week and more than eight hours a day. General fund costs include 3.75 FTE and $98,290 in fiscal 1998 and 5.00 FTE and $128,472 in fiscal 1999.

13) Forced Labor/Inmate Incentive - This request will provide funding for a two-pronged forced work and offender incentive program aimed at putting non-productive members of the inmate population to work and requiring all offenders to demonstrate appropriate responsible behavior to earn visiting, property, canteen, recreation, television, and other privileges. Development of the general fund program requires 9.75 FTE and $366,141 in fiscal 1998 and 19.00 FTE and $497,267 in fiscal 1999.

LFD Comment **- This program will involve 5 teams of 15-man crews assigned to perform tasks both inside the prison compound and in the communities. Work programs for prisoners, while they may provide benefits for the inmates as well as the beneficiaries of the work, are more expensive than work programs which function within the walls. One officer can oversee as many as 100 inmates working inside the walls, but it takes two correctional officers for every 15 inmates off-site.**

14) New 96 Bed Unit - This proposal will provide funding to staff and operate the first of two 96 bed housing units at MSP proposed to be constructed by April 1, 1999. General fund costs include 6.75 FTE and $414,396 in fiscal 1999.

LFD Comment **- The 1999 legislature will be asked to support the operation of this unit with general fund appropriations of nearly $2 million per year for the 2001 biennium.**

15) Secure Care New Equipment -This recommendation includes new equipment to an ever-expanding Secure Care Division. A variety of requests are from MSP, WCC, and PHS. General fund cost for the requests is $67,208 in fiscal 1998 and $76,047 in fiscal 1999.

6401 04
Department of Corrections — **Montana Correctional Enterprises**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	9.00	(0.50)	0.00	8.50	(0.50)	1.00	9.50	8.50
Personal Services	369,583	32,108	0	401,691	22,971	32,767	425,321	827,012
Operating Expenses	713,344	(5,908)	95,000	802,436	60,368	122,300	896,012	1,698,448
Equipment	132,825	(119,375)	0	13,450	(117,475)	19,042	34,392	47,842
Capital Projects	0	0	0	0	0	0	0	0
Total Costs	$1,215,752	($93,175)	$95,000	$1,217,577	($34,136)	$174,109	$1,355,725	$2,573,302
General Fund	897,775	(121,397)	0	776,378	(56,187)	39,555	881,143	1,657,521
Proprietary	317,977	28,222	95,000	441,199	22,051	134,555	474,582	915,781
Total Funds	$1,215,752	($93,175)	$95,000	$1,217,577	($34,136)	$174,109	$1,355,725	$2,573,302

Program Description

The Montana Correctional Enterprises Program includes the ranch and industries programs of the secure facilities. This program supports the department's mission by providing institutional offenders employment and training opportunities through work and skill development.

Funding

Funding for the Montana Correctional Enterprises Program is over 60 percent from the general fund. The general fund supports the licensing manufacturing enterprise of the prison, and revenues collected for sale of the license plates are then deposited into the general fund. The balance of the program is funded from enterprise funds, which are revenues received from other MSP programs to pay for the prison industries training program for vehicle repairs and maintenance.

Because the prison ranch and industries functions are funded with enterprise funds, they are not included in the HB2 budget. For a discussion of these programs and an analysis of the executive's proposed rates, see the "Proprietary Rate Setting and State Fund" section.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6401 04
Department of Corrections
Montana Correctional Enterprises

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	25,478	16,341
02		Inflation/Deflation	1,307	1,709
03		Mce Replace Equip	(119,375)	(117,475)
		Total Statewide Adjustments	($92,590)	($99,425)
Significant Present Law Adjustments				
04	91074	License Plate Production	(9,476)	56,398
05	91075	Industry Training Adjustments	8,891	8,891
		Total Significant PL Adjustments	($585)	$65,289
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	($93,175)	($34,136)

4) Montana Corrections Enterprises (MCE) Replace Equipment - Fiscal 1996 equipment expenditures were $132,825. The department requests replacement equipment for the Vocational Training/Education low side compound and meatcutting operations. The various equipment requests of $13,450 in fiscal 1998 and $15,350 in fiscal 1999 will allow for continuation of classroom training or continued repair and maintenance of department equipment and vehicles. The net reduction is comprised of general fund of $54,053 in fiscal 1998 and $53,627 in fiscal 1999, or 45 percent and agency revolving fund of $65,322 in fiscal 1998 and $63,848 in fiscal 1999, or approximately 55 percent.

5) License Plate Factory - The expenditure level for the general fund operation of the License Plate Factory is based on the production rates and projection of manufacturing of county license plate requests. Major expenses are for inmate pay, the purchase of aluminum and scotchlite, and funding for potential repair and maintenance of the old original equipment used to make the license plates. The program request of $392,273 in fiscal 1998 and $458,147 in fiscal 1999 reflects a net decrease of $9,476 in fiscal 1998 and an increase of $56,398 in fiscal 1999 from the 1996 actual expenditures.

6) Prison Industries Training - Personal services reductions of $3,372 each year of the 1999 biennium include overtime in telemarketing program costs due to the elimination of the program at MSP. These reductions are offset by an inmate pay increase of $11,843 each year as there is a projection to add 19 inmate workers to the program and the high side vocational-education program was not fully functional for the entire base year. Other minor adjustments are benefits for overtime and consultant services. The net increase from the fiscal 1996 actual expenditures is $8,891 each year, 45 percent general fund and 55 percent revolving fund.

6401 04
Department of Corrections **Montana Correctional Enterprises**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Vehicle Maintenance Facility					1.00	38,255	38,255	76,509
02	Additional Mce Voc Authority			95,000	95,000			95,000	95,000
03	Vehicle Maintenance Facility						250	250	500
04	Vehicle Maintenance Facility						1,050	1,050	2,100
	Total For New Proposals			$95,000	$95,000	1.00	$39,555	$134,555	$174,109

Executive New Proposals

1) Vehicle Maintenance Facility - This request is to provide 1.00 FTE and the necessary operating expenses to run the Montana State Prison (MSP) four bay service station proposed as a long range building project for fiscal 1998. Costs are projected for fiscal 1999 only as the facility is projected to be built in fiscal 1998 and wouldn't be operational until the beginning of fiscal 1999. This proposal will allow expansion of Vocational Training/Education programs for inmates at MSP of approximately 10 to 15 inmates on a monthly basis. Funding for this request is $38,255 general fund and $38,255 Industries Training internal service funds.

LFD Comment **- This increase, as well numbers 3 and 4 below, is contingent upon passage by the legislature of the service station in the long range building bill.**

2) Additional MCE Vocational Authority - Additional appropriation authority of $95,000 each year of the 1999 biennium is requested for the Vocational Training internal service fund for potential expanded work/sales over the base level budget.

3) Vehicle Maintenance Facility - The department requests $500 in fiscal 1999 for a printer to be used by the new vehicle maintenance facility which is explained above in number 1. Funding is half general fund and half internal service funds in the Industries Training Program.

4) Vehicle Maintenance Facility - The department requests $2,100 in fiscal 1999 for a computer and associated equipment to be used by the vehicle maintenance facility which is explained above in number 1. Funding is half general fund and half internal service funds in the Industries Training Program.

6602 00

Agency Proposed Budget

Department of Labor & Industry

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	601.50	0.00	6.50	608.00	0.00	6.50	608.00	608.00
Personal Services	18,377,203	1,327,920	191,145	19,896,268	1,117,339	191,072	19,685,614	39,581,882
Operating Expenses	7,376,283	649,573	26,326	8,052,182	400,841	29,099	7,806,223	15,858,405
Equipment	813,813	(245,736)	18,050	586,127	(319,760)	3,000	497,053	1,083,180
Capital Projects	61,331	(61,331)	0	0	(61,331)	0	0	0
Grants	10,036,173	917,254	0	10,953,427	917,254	0	10,953,427	21,906,854
Benefits and Claims	269,617	(15,489)	0	254,128	(25,089)	0	244,528	498,656
Debt Service	2,034	1,057	0	3,091	1,057	0	3,091	6,182
Total Costs	$36,936,454	$2,573,248	$235,521	$39,745,223	$2,030,311	$223,171	$39,189,936	$78,935,159
General Fund	1,248,752	39,102	(31)	1,287,823	25,588	(35)	1,274,306	2,562,129
State/Other Special	9,710,997	1,172,334	121,238	11,004,569	595,759	117,539	10,424,295	21,428,864
Federal Special	25,468,883	980,291	114,336	26,563,510	1,035,209	105,690	26,609,782	53,173,292
Proprietary	507,822	381,522	(22)	889,322	373,754	(24)	881,552	1,770,874
Total Funds	$36,936,454	$2,573,248	$235,521	$39,745,223	$2,030,311	$223,171	$39,189,936	$78,935,159

Mission Statement

To promote the well-being and opportunities of Montana workers and employers and to uphold the rights and responsibilities of both.

Agency Description

The Department of Labor and Industry (DOLI), provided for in 2-15-1701, MCA, serves as an employment agency, collects and disburses state unemployment trust funds, compiles and distributes employment statistics, provides training, and oversees federal and state training and apprenticeship programs. The department enforces federal and state labor standards laws, state wage and hour laws, contractor registration, provides adjudicative services in labor-management disputes, enforces state and federal anti-discrimination laws, and performs workers' compensation and safety regulatory duties.

6602 00
Department of Labor & Industry

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	601.50	6.50	608.00	601.50	6.50	608.00	601.50	608.00
Personal Services	19,705,123	191,145	19,896,268	19,494,542	191,072	19,685,614	38,537,146	39,581,882
Operating Expenses	8,025,856	26,326	8,052,182	7,777,124	29,099	7,806,223	16,480,554	15,858,405
Equipment	568,077	18,050	586,127	494,053	3,000	497,053	1,390,112	1,083,180
Capital Projects	0	0	0	0	0	0	121,331	0
Grants	10,953,427	0	10,953,427	10,953,427	0	10,953,427	23,242,388	21,906,854
Benefits and Claims	254,128	0	254,128	244,528	0	244,528	532,145	498,656
Debt Service	3,091	0	3,091	3,091	0	3,091	7,034	6,182
Total Costs	$39,509,702	$235,521	$39,745,223	$38,966,765	$223,171	$39,189,936	$80,310,710	$78,935,159
General Fund	1,287,854	(31)	1,287,823	1,274,340	(35)	1,274,306	2,519,594	2,562,129
State/Other Special	10,883,331	121,238	11,004,569	10,306,756	117,539	10,424,295	21,979,605	21,428,864
Federal Special	26,449,174	114,336	26,563,510	26,504,092	105,690	26,609,782	54,634,895	53,173,292
Proprietary	889,344	(22)	889,322	881,576	(24)	881,552	1,176,616	1,770,874
Total Funds	$39,509,702	$235,521	$39,745,223	$38,966,765	$223,171	$39,189,936	$80,310,710	$78,935,159

Agency Issue

Employment Security Account Declining Fund Balance

The Employment Security Account (ESA) receives revenues from the unemployment insurance administrative tax (UI admin tax), which is a tax on wages subject to the unemployment tax paid by employers. Table 1 summarizes how the ESA state special revenues were expended during fiscal 1996, and how they are being used during fiscal 1997 in the DOLI. The table also summarizes the allocation of the ESA in the Executive Budget for the 1999 biennium. In the past, revenues exceeded expenditures, resulting in year-end fund balances of $1.7 million for fiscal 1995, and $1.5 million for fiscal 1996. However, DOLI is anticipating federal funding reductions for Job Service Center programs during the 1999 biennium, and is proposing increased usage of the ESA to offset this loss of federal funds. Consequently, the executive proposes depletion of the account surplus. For additional information, see the Job Service Division's program issue entitled, "Anticipated Impact of Federal Funding Reductions upon Local Job Service Centers." The legislature may wish to evaluate: 1) the appropriateness of this depletion; and 2) the adequacy of projected year-end fund balances.

Table 1
Employment Security Account
Summary

	Fiscal 1996 Actual Expenditures	Fiscal 1997 Appropriations	Fiscal 1998 Executive Budget	Fiscal 1999 Executive Budget
INCOME				
Beginning Fund Balance	$1,683,087	$1,546,683	$281,944	($138,442)
Revenues	4,071,551	4,425,700	4,597,200	4,816,200
Total Available	$5,754,638	$5,972,383	$4,879,144	$4,677,758
DISBURSEMENTS*				
Department of Revenue				
Income Tax	$68,750			
Labor & Industry				
Job Service Division		$3,618,182		
JSD Operations	2,699,601		3,781,504	3,261,468
JTPA Oversite Administration	4,000			
Research and Analysis	79,265		83,252	87,282
Community Services	56,214	95,630	33,493	33,498
Job Service Operations PL Adjustment			44,057	39,821
Research and Analysis PL Adjustment			2,561	2,620
Community Services PL Adjustment			4,856	4,834
JSD Equipment - Replacement PL Adjustment			(295,127)	(295,127)
JSD Vehicle Lease PL Adjustment			782	782
JSD Vehicle Lease New Proposal			(771)	(857)
Continuing Appropriations		22,287		
Unemployment Insurance Division		$334,307		
Unemployment Insurance	317,558		342,350	350,550
Unemployment Insurance Operations			1,921	(2,117)
Commissioner's Office/CSD		$340,410		
Legal Services	303,525		323,079	322,605
Legal Services PL Adjustment			9,627	9,672
Legal/Hearings Equipment PL Adjustment			(3,827)	(10,907)
CAP & Direct Charge - HB 576	2,000			
Continuing Appropriations		575,308		
Employment Relations Division		$701,954		
ERD Administrative Unit	84,287		63,411	60,211
Workers' Comp. Regulation	26,038		29,082	29,082
Labor Standards Bureau	211,768		218,900	217,783
Independent Contractor Unit			853	853
Performance Based Budgeting Labor Standards Bureau	330,134		341,750	340,460
PBB Labor Standards Bureau			8,056	7,696
Labor Standards Bureau PL Adjustment			11,613	9,307
ERD Equipment - Replacement PL Adjustment			16,163	10,556
Continuing Appropriations		2,361		
Total Disbursements	$4,183,140	$5,690,439	$5,017,586	$4,480,073
Adjustments	($24,815)			
Ending Fund Balance	$1,546,683	$281,944	($138,442)	$197,685

*As contained in Montana Integrated Budgeting System

6602 01
Department of Labor & Industry — **Job Service Division**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	344.35	0.00	0.00	344.35	0.00	0.00	344.35	344.35
Personal Services	10,591,637	550,619	0	11,142,256	325,994	0	10,917,631	22,059,887
Operating Expenses	3,968,243	117,649	(2,700)	4,083,192	14,632	(3,000)	3,979,875	8,063,067
Equipment	379,894	(144,372)	0	235,522	(152,922)	0	226,972	462,494
Capital Projects	61,331	(61,331)	0	0	(61,331)	0	0	0
Grants	10,036,173	917,254	0	10,953,427	917,254	0	10,953,427	21,906,854
Debt Service	2,034	1,057	0	3,091	1,057	0	3,091	6,182
Total Costs	$25,039,312	$1,380,876	($2,700)	$26,417,488	$1,044,684	($3,000)	$26,080,996	$52,498,484
General Fund	392,802	13,509	(31)	406,280	13,509	(35)	406,277	812,557
State/Other Special	4,529,807	558,615	(927)	5,087,495	46,389	(1,030)	4,575,166	9,662,661
Federal Special	20,077,037	808,538	(1,720)	20,883,854	984,572	(1,912)	21,059,697	41,943,552
Proprietary	39,666	214	(22)	39,858	214	(24)	39,856	79,714
Total Funds	$25,039,312	$1,380,876	($2,700)	$26,417,488	$1,044,684	($3,000)	$26,080,996	$52,498,484

Program Description

The Job Service Division is organized into five bureaus and one administratively-attached entity. The Administrative Services Bureau, North Operations Bureau, South Operations Bureau, and the Training Bureau provide a wide range of federally-funded employment and training programs including: 1) employment services; 2) unemployment insurance; 3) veterans services; 4) migrant and seasonal farm worker services; 5) alien certification; 6) housing inspection; 7) school to work transition program (Jobs for Montana Graduates - JMG); 8) federal bonding program; 9) programs for dislocated workers and economically disadvantaged individuals (Job Training Partnership Act - JTPA); 10) trade adjustment assistance; and 11) state registration for apprenticeship programs. The division operates 23 local Job Service Centers throughout Montana.

The Research and Analysis Bureau provides a wide range of federal and state funded labor market information programs, including the Montana Career Information System (MCIS). The Office of Montana Community Service, which is administratively attached to the department, promotes volunteer service in Montana communities, and administers AmeriCorps and Learn and Serve America grants.

The Job Service Division operates under a number of state and federal mandates. The primary state mandates are Titles 18 and 39, MCA, (Montana state labor laws). The federal mandates are the Wagner Peyser Act of 1937, the Job Training Partnership Act, the Occupational Safety and Health Act, the Carl Perkins Act, the Immigration Reform Act, and the Social Security Act - Title IX.

Funding

The Job Service Program is funded with 79.1 percent federal funds, 19.3 percent state special revenues, 1.5 percent general fund, and 0.1 percent proprietary funds in fiscal 1998. In fiscal 1999, the percentage amounts are 80.8 federal funds, 17.5 state special revenues, 1.6 general fund, and 0.1 proprietary funds. Federal funds are provided primarily by Wagner Peyser/Employment Security grants, the Unemployment grant, the Trade Adjustment Act, and the JTPA. Additional federal grants include Employment Training (such as the Economic Dislocation Worker Adjustment Assistance or EDWAA), Veteran support, and funding for economic research

and analysis.

The Employment Security Account (ESA) and subgrants and contracts from the nonprofit entity Montana Job Training Partnership, Inc. are major contributors of state special revenues. The ESA receives revenues from the unemployment insurance administrative tax (UI admin tax), which is a tax on wages subject to the unemployment tax paid by employers. The Office of Montana Community Service is funded with the federal Montana Community Service grant, which is matched with state ESA funds. General fund supports Displaced Homemaker and JMG activities. The MCIS is funded with proprietary funds generated by user fees and grants, and was taken off budget due to the passage of HB 576 during the 1995 legislative session.

During the 1999 biennium, anticipated reductions in federal grants are proposed to be offset with concomitant increases in funds from the ESA state special revenue account. Table 1 presents an expenditure summary for this account. For a discussion of the anticipated impact of federal funding reductions, see the program issue entitled, "Anticipated Impact of Federal Funding Reductions upon Local Job Service Centers."

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6602 01 Department of Labor & Industry Job Service Division			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	549,509	324,884
02		Inflation/Deflation	(148,268)	(204,917)
03		Fixed Costs	146,388	83,149
		Total Statewide Adjustments	$547,629	$203,116
Significant Present Law Adjustments				
04	79199	Pgm 1 Non-Disc Equip PC'S	0	0
05	91001	Job Service Operations	44,057	39,821
06	91002	Job Service Pay Unit	483,414	483,414
07	91003	JTPA Oversite Administration	(28,341)	(29,578)
08	91004	JTPA Oversite Grants	212,855	212,855
09	91005	Research And Analysis	38,426	30,761
10	91006	Community Services	276,267	276,154
11	91007	Martin Luther King Celebration/Cs	1,500	1,500
12	91101	JSD Equipment - Replacement	(170,572)	(170,572)
13	91103	JSD Vehicle Lease	2,736	2,736
14	91106	R&A Non-Discretionary Equip.	0	0
		Total Significant PL Adjustments	$860,342	$847,091
Other Base Adjustments			($27,095)	($5,523)
		Grand Total Present Law Adjustments	$1,380,876	$1,044,684

5) Job Service Operations - The executive recommendation increases the operating expenses for the Job Service operations by $44,057 in fiscal 1998 and $39,821 in fiscal 1999. Of the increase each year, there is $26,063 associated with the purchase of the Montana Career Information System, a comprehensive, computerized career information system used in counseling clients. Rent for non-state owned buildings is projected to increase by $7,064 each year, and indirect cost allocations for support of the Centralized Services and Commissioner's Office have increased.

LFD Issue - This adjustment is funded with 100 percent state special revenue (ESA). The cost of purchasing the Montana Career Information System (MCIS) was not part of the program's base expenditures in fiscal 1996. The funds utilized in fiscal 1996 are no longer available, according to the agency. Hence, this adjustment represents a fund shift to the ESA. The legislature may wish to fund this increase with the proprietary funds used to fund the remainder of the MCIS program.

6) Job Service Pay Unit - Payments made to job training participants are expected to increase to $2,216,715 each year of the biennium. This would be an increase of $483,414 over fiscal 1996 actual expenditures. Examples of payments made are work experience wages and benefits, student allowances, supportive services for participants to participate in the programs, training costs, and OJT reimbursement.

LFD Issue **- Based upon information submitted by the executive, it is not possible to discern how this increase will be funded.**

7) JTPA Oversite Administration - Consulting and professional services decline by approximately $37,700 each year of the biennium. The decrease is partially offset by an increase in the internal cost allocation plan.

LFD Comment **- This adjustment is a reduction in federal employment training grants.**

8) JTPA Oversite Grants - Job Training Partnership Act (JTPA) funds are anticipated to be $7 million each year of the biennium. Actual disbursements to state agencies, private businesses, and non-profits organizations in fiscal 1996 amounted to $6,796,632. The agency is anticipating 100 percent disbursement of the JTPA funds in the new biennium. In addition, the agency administers the state displaced homemaker funds, which were $183,883 in fiscal 1996. The agency anticipates this funding will be $193,370 each year.

LFD Comment **- This adjustment is funded with $9,487 of general fund for the displaced homemaker program for each year of the biennium. The remaining $203,368 for each year of the biennium is funded with federal funds from the Job Training Partnership Act (JTPA).**

9) Research and Analysis - The executive recommendation is an increase of $38,426 in fiscal 1998 and $30,761 in fiscal 1999. Replacement of equipment, primarily personal computers, is $50, 172 in fiscal 1998 and $42,672 in fiscal 1999. These proposed purchases are offset by a decrease of $17,326 each year of the biennium due to a change in charging internal fixed costs within the department.

LFD Comment **- This adjustment is funded with 90.7 percent federal funds in fiscal 1998, and 87.2 percent federal funds in fiscal 1999. The remainder is supplied by state special revenues (ESA and Workers Compensation Regulation Assessment).**

10) Community Services - The Office of Community Services began a new program in fiscal 1997 with the Points of Light Foundation's "YES Ambassador" and anticipates continued involvement in the 1999 biennium. The cost will be $20,000 per year. In addition, the agency contracts with the Missoula Parks and Recreation to provide "Teams" training to AmeriCorps members for $1,000 per year. The agency will also contract directly for program evaluations for $10,000 per year. In prior fiscal years this activity was provided by Northwest Regional Education Lab, which received the funding directly. Grant funds are anticipated to be $239,985 over fiscal 1996 actual disbursements, and it is anticipated that all funds will be disbursed for projects.

LFD Comment **- This adjustment is funded with 98.2 percent federal fund, and 1.8 percent state special revenue (ESA).**

11) Martin Luther King Celebration/CS - This program has been moved from the Governor's Office to the Community Services Office in the Department of Labor and Industry. There is $1,500 of general fund authority each year of the biennium.

12) JSD Equipment - Replacement - Recommended replacement equipment for this division each year of the biennium will cost $174,300. This recommendation is $170,572 less than what was actually expended on equipment in fiscal 1996.

LFD Comment **- The spending reductions in this category were taken in state special revenues (ESA).**

13) JSD Vehicle Lease - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $6,300 in fiscal 1998 for three sedans and $6,000 in fiscal 1999 to continue the leases. The vehicles will be located in Billings, Kalispell, and Great Falls. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain a reduction of $3,564 each year of the biennium for gasoline and maintenance cost savings. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- The funding for this adjustment is 64 percent federal funds, with state special revenues supplying 34 percent, and 2 percent proprietary and general fund.**

Other Base Adjustments - Numerous small increases and decreases from the base comprise the net base adjustment.

6602 01
Department of Labor & Industry **Job Service Division**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	JSD Vehicle Lease		(31)	(2,669)	(2,700)		(35)	(2,966)	(3,000)
	Total For New Proposals		($31)	($2,669)	($2,700)		($35)	($2,966)	($3,000)

Executive New Proposals

1) Leased Vehicles - New - The executive recommends that three sedans be obtained for this program through a State Motor Pool lease at a budgeted cost of $6,300 in fiscal 1998 and $6,000 in fiscal 1999. The vehicles will be based in Bozeman, Cut Bank, and Glendive for the Job Service Division. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Issue **- Since this is a new proposal, the correct requested expenditure is for $6,300 in fiscal 1998, and $6,000 in fiscal 1999. A cost savings of $2,700 in fiscal 1998 and $3,000 in fiscal 1999 (per item 1 in the new proposals table) is not realized when discretionary equipment is purchased. This proposal is funded with 1.2 percent general fund, 34.4 percent state special revenue (which includes ESA funds), 63.6 percent federal funds, and 0.8 percent proprietary funds. The legislature may wish to inquire what, if any, impact any potential closures of Job Service Centers would have on the need for these additional, new vehicles.**

Program Issue

Anticipated Impact of Federal Funding Reductions upon Local Job Service Centers

Anticipated federal funding reductions and implementation of cost savings measures that centralize and automate the UI claims process are expected to reduce personnel levels at local Job Service Centers during the 1999 biennium and beyond. Due to these two factors, the closure of as many as 13 of the smallest of the 23 local Job Service Centers is under consideration by DOLI. Due to the uncertainty regarding future federal funding, these projections are highly speculative in nature at this time.

The Executive Budget for the operation of Job Service Centers includes an anticipated federal funding reduction of 8.6 percent ($836,421) in fiscal 1998 and 6.5 percent ($636,477) in fiscal 1999, compared to federal funding levels during fiscal 1996. Funding support from the state special revenue ESA account is increased by 40.1 percent ($1,081,903) in fiscal 1998 and 20.8 percent ($561,867) in fiscal 1999 to offset the majority of these federal funding cuts. Available funding support from the ESA decreases in 1999 due to the depletion of the account's surplus. Table 2 summarizes the historical and projected fund balances of the ESA from fiscal 1994 through 1999.

Table 2
Employment Security Account

State Fiscal Year	Ending Fund Balance
1994	$2,380,089
1995	1,683,087
1996	1,546,683
1997 (estimate)	281,944
1998 (projected)	(138,442)
1999 (projected)	197,685

The division's requested FTE level of 310.85 for the operation of Job Service Centers is not fully funded, as assumed vacancy savings equal to $311,424 (representing about 8 FTE) in fiscal 1998 and $311,947 (about 8 FTE) in fiscal 1999 are used to balance the Executive Budget. (This vacancy savings is in addition to any imposed to fund the executive pay plan). The total decrease in federal funds and vacancy savings equal $1,147,845 (fiscal 1998) and $948,424 (fiscal 1999) when compared to fiscal 1996.

Automation and centralization of UI claims will shift UI benefit claims-taking responsibility from the Job Service Centers, where they are currently housed, to a new centralized telephone processing center in the UI Division. (In the future, those claiming UI benefits will make application by telephone rather than at a local Job Service Center). It is anticipated that $2,073,037 of federal funds for processing claims will be shifted from the budget for Job Service Centers to the UI Division. This funding level is roughly equivalent to the support of 46 FTE. This automation project is in the pilot planning and implementation phase, and is expected to be fully implemented during fiscal 1998. This transfer of $2,073,037 and FTE is not reflected in the 1999 biennium Executive Budget.

The cumulative impact of anticipated federal funding reductions in regard to the vacancy savings taken in the Executive Budget, and the transfer of the UI claims-taking function to the UI Division, can be approximated in terms of a 54 FTE reduction in fiscal 1998 and a reduction of 8 additional FTE in fiscal 1999. If these 62 FTE were reduced by closing local Job Service Centers, starting with the smallest, up to 13 of the 23 centers would be closed. As stated earlier, these projections are highly speculative in nature due to federal funding uncertainties. Impact mitigation measures, public meetings at the local level, and evaluation of alternatives to closure are currently under development by DOLI. Since the UI Division plans to increase their staff for telephone claims by 35 to 40 FTE, FTE will be transferred from the JS Division to the UI Division.

Table 3
Adjustments to Derive Funding - Executive Budget
Job Service Centers

Adjustment	Fiscal 1998	Fiscal 1999
Federal Fund Reductions*	($836,421)	($636,477)
Increased ESA Utilization	1,081,903	561,867
Other Adjustments	328,873	335,173
Total Executive Budget Adjustment	$574,355	$260,563
Transfer to UI**	($2,073,037)	($2,215,493)
Total Job Service Centers Adjustment	($1,498,682)	($1,954,930)

*Additional federal fund reductions of $311,424 in fiscal 1998 and $311,947 in fiscal 1999 are reflected as vacancy savings.

**Although it is not reflected in the budget, DOLI has indicated this transfer will occur in the 1999 biennium.

This would help mitigate impacts upon employees of DOLI. Table 3 summarizes the various anticipated funding reductions.

The legislature may wish to ask the department to discuss the following:

1) the impacts of these potential closures on availability of services, and how services will be maintained for workers and employers in the potentially affected areas;

2) what, if any, reductions would take place at larger job service offices;

3) other alternatives to closing small offices considered by DOLI;

4) how the transfer of UI claims is influencing the decision to close small offices;

5) how further required vacancy savings (to meet pay plan requirements) would affect service and staffing at job service centers; and

6) their projection of when potential closures of centers might occur.

6602 02

Department of Labor & Industry — **Unemployment Insurance Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	105.00	(2.00)	0.00	103.00	(2.00)	0.00	103.00	103.00
Personal Services	3,086,751	162,771	0	3,249,522	170,371	0	3,257,122	6,506,644
Operating Expenses	1,519,365	63,694	0	1,583,059	(44,402)	0	1,474,963	3,058,022
Equipment	229,605	(139,800)	7,050	96,855	(147,124)	0	82,481	179,336
Total Costs	$4,835,721	$86,665	$7,050	$4,929,436	($21,155)	$0	$4,814,566	$9,744,002
General Fund	21,109	544	0	21,653	722	0	21,831	43,484
State/Other Special	319,608	27,177	0	346,785	31,310	0	350,918	697,703
Federal Special	4,495,004	58,944	7,050	4,560,998	(53,187)	0	4,441,817	9,002,815
Total Funds	$4,835,721	$86,665	$7,050	$4,929,436	($21,155)	$0	$4,814,566	$9,744,002

Program Description

The Unemployment Insurance (UI) Division administers the state unemployment insurance law and related federal programs which provide temporary, partial wage replacement to involuntary unemployed individuals. The UI Division is organized into three bureaus: UI Contributions, UI Benefits, and UI Program Support. The UI Contributions Bureau determines which employers must pay the UI tax and registers them, assigns UI rates, audits and enforces, collects and administers the tax, and accounts for the UI trust fund. It also registers businesses for Department of Revenue withholding taxes and Old Fund Liability taxes. The UI Benefits Bureau receives, processes, and pays UI benefit claims; and adjudicates disputed benefit claims. The UI Support Bureau manages the Benefit Automated Rewrite System (BeAR) which is the UI insurance and benefit accounting and payment system.

The UI Division operates under state and federal mandates. The state mandate is Title 39, Chapter 51, MCA. Federal mandates include Titles III and IV of the Social Security Act, the Federal Unemployment Tax (FUTA), and the Trade Act of 1974.

Funding

The UI Division is funded with 92.4 percent federal fund, 7.2 percent state special revenues, and 0.4 percent general fund. The majority of the federal funds are from UI grants. The ESA, funded with the UI administration tax, contributes the majority of state special revenues.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments

6602 02

Department of Labor & Industry — Present Law Adjustments/Issues

Unemployment Insurance Division

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	162,771	170,371
02		Inflation/Deflation	(105,471)	(139,866)
03		Fixed Costs	(19,094)	(35,955)
		Total Statewide Adjustments	$38,206	($5,450)
Significant Present Law Adjustments				
04	79198	Bear System Reprogramming	0	0
05	79199	Ui Non-Disc Pc'S	0	0
06	91021	Interactive Voice Response (Ivr)	160,661	160,661
07	91022	Ui Operations	27,598	(29,242)
08	91201	Ui Equipment - Replacement	(139,800)	(147,124)
		Total Significant PL Adjustments	$48,459	($15,705)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$86,665	($21,155)

are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative description.

4) Interactive Voice Response (IVR) System - The recommended amount of $160,661 each year is to annualize charges to reflect the anticipated usage of the IVR system for continued claims filing. In fiscal 1996 usage grew from zero to about 50 percent of claimants filing biweekly claims. During fiscal 1998 and fiscal 1999 usage is projected to be 90 percent.

LFD Comment **- This adjustment is 100 percent federally funded. The UI Division is in the process of automating the claims-taking process for unemployment insurance benefits. In the future, individuals will file claims for benefits by telephone rather than at their local Job Service Center. See the preceding LFD program issue entitled, " Anticipated Impact of Federal Funding Reductions upon Local Job Service Centers." The requested funds are for anticipated telephone equipment and long distance charges (from DofA), and are based on results of pilot studies. The executive has not transferred the FTE from the Job Service Division for this function.**

5) UI Operations - Recommended changes to the operating costs of this program amount to a $27,598 increase in fiscal 1998 and a $29,242 decrease in fiscal 1999. The primary difference is in the consulting and professional services category where $130,000 is being recommended in fiscal 1998 and $75,000 in fiscal 1999 or differences of a $23,558 increase in fiscal 1998 and a $31,442 decrease in fiscal 1999.

LFD Issue **- The requested increase in fiscal 1998 is for contracted services for computer improvements in the UI Contributions Bureau that will, among other things, improve how employers electronically file their UI tax (contribution) payments. The request includes $50,000 for converting to Windows software, $25,000 to provide for electronic funds transfer, and $55,000 for other computer enhancements in the Montana Automated Contributions (MAC) computer system for fiscal 1998. An additional $75,000 is requested in fiscal 1999. Base expenditures were $105,386 in fiscal 1996 for this expenditure category. Funding consists of: 1) state special revenues, primarily the ESA (7 percent); 2) federal funds (92.6 percent); and 3) general fund (0.4 percent).**

Transfer of this collection function to the Department of Revenue (DOR) is proposed in a bill that is anticipated to be introduced during the 1997 legislative session. In addition, an executive proposal for the redesign and integration of the UI tax collection computer system into DOR computer systems is also proposed. For more details, see the LFD program issue in this section entitled: "UI Contributions Bureau and Department of Revenue Reorganization and Related Computer System Upgrades."

If the UI Contributions Bureau's collection duties are transferred to DOR and a new computer system is designed and integrated into DOR's computer systems, this adjustment may not be necessary.

6) UI Equipment - Replacement - There is $89,805 of replacement equipment being recommended for fiscal 1998 and $82,481 in fiscal 1999 compared to actual fiscal 1996 equipment expenditures of $229,605. The division is planning to replace a variety of items from personal computers to office and duplicating equipment.

6602 02
Department of Labor & Industry **Unemployment Insurance Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 UI Equipment - New			7,050	7,050				
Total For New Proposals			$7,050	$7,050				

Executive New Proposals

1) UI Equipment - New - A photocopier machine is recommended for the Bozeman field office. Currently any copies needed are obtained offsite. Equipment life is estimated to be three to five years with an estimated cost of $3,050. In addition two FAX machines are recommended for the Bozeman and Kalispell field offices. Estimated cost is $2,000 per machine.

LFD Comment - **This proposal is funded totally with federal funds.**

Program Issue

UI Contributions Bureau and Department of Revenue Reorganization and Related Computer System Upgrades

The 54th Legislature enacted HB 550, which provided improved taxpayer service to businesses by streamlining and simplifying wage-based reporting for withholding tax, unemployment insurance (UI) tax, and the Old Fund Liability Tax (OFLT). The fiscal note for HB 550 clarified that a cost-benefit analysis was to be conducted to determine the feasibility of integrating DOLI's UI tax collection functions into the Department of Revenue's (DOR) wage-based tax collection systems (UI/DOR integration). The fiscal note stated that if the cost-benefit analysis supported UI/DOR integration, an in-depth proposal was to be prepared for the 55th Legislature, which would address personal services, operating, and system development costs. DOLI and DOR have concluded that the cost-benefit analysis supports UI/DOR integration.

As a result, the Executive Information Technology Bond Proposal includes $23.9 million of computer system upgrades for the DOR, which includes $2.5 million for computer system enhancements necessary to accomplish the UI/DOR integration. This new proposal, which is included in the Long-Range Building executive proposal, would be financed through the sale of 10 year bonds, and if implemented would provide for the upgrading of essentially all computer systems for individual income tax, revenue collection, and wage-based taxes in DOR. A second associated new proposal in DOR (totaling $1.3 million over the biennium) is included to pay for increased contracted auditing services to enhance revenue collections, and to transfer 34 to 38 FTE from DOLI to DOR. Table 4 provides a summary of the costs of both of these new proposals. The Executive Budget indicates that funding for both proposals would be entirely from the general fund.

While this committee will not determine whether the bonding is undertaken, it can provide input to both the Long-Range Planning Subcommittee and the General Government Subcommittee (where the DOR budget is reviewed) on the following issues:

1) should the UI Contributions tax collection function be integrated into the DOR computer systems, and the UI Contributions Bureau of DOLI be transferred to DOR?

2) if the answer to issue number one is affirmative, should this integration (and reorganization) occur only if the new proposal for the entire $23.9 million of DOR computer upgrades is funded?

3) if the $23.9 million of DOR system upgrades were not funded, should the UI/DOR $2.5 million of computer system integration (and reorganization) be funded alone?

Table 4
Executive New Proposal Costs
Related to Proposed UI/DOR Integration

Category	Overall Cost
System Upgrades	
UI/DOR Integration	$2,500,000.0
Income Tax Modernization	9,900,000
Systems Integration	4,047,000
Revenue Processing Center	7,500,000
Total Bonded	$23,947,000
Increased Biennium Processing Costs	$1,332,134

The cost-benefit analysis, conducted by Andersen Consulting, assessed two alternatives over a five-year evaluation period. The first alternative, the least expensive to implement since it was more limited in scope, consisted of consolidating and re-engineering all common UI/wage-based withholding/OFLT taxes and processes; merging the UI Contributions Bureau into the DOR; and modifying the existing DOR computer systems to accommodate the UI/DOR integration. (This alternative is equivalent to the previously described $2.5 million UI/DOR computer upgrade component of the new proposal, and the $1.3 million new proposal for increased biennium auditing/reorganization costs). The report concluded that the anticipated benefit-to-cost ratio ranges from a high of 2.4 to a low of 1.3. The estimate of benefits ranged from $5.4 to $9.6 million over a five-year period and included $3.2 to $6.4 million of enhanced revenues from increased taxpayer audits. Benefit-to-cost ratios above 1.0 are considered acceptable. A ratio of 1.3 indicates that estimated benefits exceed estimated costs by about 33 percent. To achieve the enhanced collections, an estimated five additional auditors are needed (and are reflected in the executive's new proposal for $1.3 million in additional costs). Other benefits include reduced reporting requirements for the business community, which are substantial but are difficult to measure with great accuracy.

Andersen Consulting's second alternative consisted of the departmental-wide upgrading of all computer systems, in addition to UI/DOR integration. It is equivalent to the executive proposal for $23.9 million as previously discussed. The benefit-to-cost ratio ranged from a low of 1.98 to a high of 11.1, primarily due to the difficulty of accurately estimating projected benefits, which range from $29.7 million to $89.1 million over the five-year evaluation period.

Issues that the legislature may wish to consider in developing their recommendation to the Long-Range Planning and General Government subcommittees are:

1) Should the UI/DOR integration occur given that:

a) the current computer system for UI Contributions collections at DOLI was upgraded two years ago, and is reported to function satisfactorily by agency officials; and

b) the goal of reduced reporting requirements for businesses could conceivably be achieved through greater interagency coordination that did not require an extensive computer system integration. For example, it is conceivable that one form could be developed that satisfies both DOLI and DOR reporting requirements, and that this form could be received by one agency and shared with the other, making use of the two existing separate computer systems;

2) If the UI/DOR integration is approved in concept, but the remaining $21.4 million of computer upgrades for all other systems at DOR are not approved for the 1999 biennium, should the UI/DOR integration be delayed until all DOR systems are ungraded in the future, given that:

a) DOR officials state that the existing DOR computer systems, into which the UI system would be integrated, are dated and will require extensive upgrading in the foreseeable future; and

b) the existing UI contributions computer system at DOLI is capable of fulfilling its required function during the interim.

Proposal for Computer System Redesign for the Unemployment Insurance Benefits Automated ReWrite System (BeAR)

The executive Information Technology Bond Proposal includes a total of $3.6 million to redesign the BeAR computer system and the associated wage and employer charging automated systems. These systems process all unemployment insurance claims for the state, including initial claims, weekly claims, eligibility determinations, employer charging, and benefit payment control functions. The debt payments on the bonds are proposed to be paid with federal funds. The sources of the federal funds are the UI Administrative grant for repayment of the principal, and the UI Penalty and Interest funds for interest payments.

The current BeAR system was brought on-line in 1985, using technology from the late 1970's. Agency officials state that the systems need significant reprogramming to address their age, increased maintenance requirements, potential capacity issues, critical and extensive millennium changes so that the system can process claims beyond the year 1999 (year 2000 issue), increases in system security, audit recommendations, fulfillment of federal and state legislative changes, and expansion of the functionality of the system which would reduce programming backlogs.

A contracted study analyzed the status of the BeAR system and recommended replacement and redesign. The program also estimates that should the entire redesign not occur, the UI division would need $343,000 for the 1999 biennium to address the problem of processing benefits beyond the year 1999.

The executive has cited 17-7-502(4), MCA, in its determination that debt service for the bonds to finance these computer upgrades are statutorily appropriated. As such, the funds for debt payment are not included in the executive budget for the UI division. The Information Technology Bond Proposal will be reviewed by the Long Range Planning Subcommittee. This committee may wish to make a recommendation to the Long Range Planning Subcommittee regarding the disposition of the proposal to redesign the BeAR system.

6602 03

Department of Labor & Industry — **Legal/Centralized Services Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	24.15	0.50	0.00	24.65	0.50	0.00	24.65	24.65
Personal Services	795,190	164,616	0	959,806	166,087	0	961,277	1,921,083
Operating Expenses	255,393	82,975	0	338,368	79,826	0	335,219	673,587
Equipment	28,030	(7,730)	0	20,300	(22,030)	0	6,000	26,300
Total Costs	$1,078,613	$239,861	$0	$1,318,474	$223,883	$0	$1,302,496	$2,620,970
State/Other Special	584,434	188,510	0	772,944	175,007	0	759,441	1,532,385
Federal Special	391,959	34,650	0	426,609	32,328	0	424,287	850,896
Proprietary	102,220	16,701	0	118,921	16,548	0	118,768	237,689
Total Funds	$1,078,613	$239,861	$0	$1,318,474	$223,883	$0	$1,302,496	$2,620,970

Program Description

The Commissioner's Office and the Legal/Centralized Services Division provide program direction, legal, administration, and support services to the department. Legal/Centralized Services provides the central support functions of the department through six bureaus: 1) Accounting; 2) Information Services; 3)Budget; 4) Personnel and Training; 5) Hearings; and 6) Legal Services. Also, administratively attached to this division is the three-member Board of Labor Appeals, which hears appeals concerning the administration of Montana unemployment insurance laws and employer/employee relationships.

The Accounting, Information Services, Budget, and Personnel and Training Bureaus operate under state mandates, primarily Title 2, Chapters 15 and 18, MCA, and Title 17, MCA, the state finance laws. The Hearings and Legal Services bureaus operate under a number of state and federal laws and regulations. State mandates primarily include Titles 39 and 50, MCA; and Montana state labor, health, and safety laws. Federal mandates include federal labor, health, and safety laws.

Funding

The Legal/Centralized Services Division (which includes the Commissioner's Office) is supported by funds appropriated in HB 2 and in HB 576, which is comprised of 'off-budget' proprietary funds. The Division's total executive budget equals $2,956,526 in fiscal 1998, and $2,931,939 in fiscal 1999. This compares to fiscal 1996 total expenditures of $2,560,314. In total, the division's budget is comprised of 59.5 percent proprietary funds, 26 percent state special revenues, and 14.5 percent federal funds. All proprietary funds except those described below are discussed in the HB 576 portion of the "Proprietary Funds and State Fund" section of this report.

Major funding sources include federal UI grants, state special revenues from the ESA (UI Admin tax), assessments upon workers compensation insurers, and proprietary funds. The proprietary funds are primarily the result of the department's cost allocation plan which charges other departmental programs for the internal, centralized services that this division provides. In addition, state special revenues derived from contractor registration fees and proprietary funds from assessments upon uninsured employers provide funding. Fourteen percent of the proposed state special revenue funding increases in HB 2 (for the 1999 biennium) are provided by increased contractor registration fees.

Executive Present Law

6602 03
Department of Labor & Industry
Legal/Centralized Services Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	164,616	166,087
02		Inflation/Deflation	(2,569)	(2,702)
03		Fixed Costs	22,849	19,657
		Total Statewide Adjustments	$184,896	$183,042
Significant Present Law Adjustments				
04	79199	Legal/Hearings Non-Disc PC'S	0	0
05	91031	Legal Services	37,654	37,830
06	91032	LS/Contractor Registration	25,041	25,041
07	91301	Legal/Hearings Equipment	(7,730)	(22,030)
		Total Significant PL Adjustments	$54,965	$40,841
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$239,861	$223,883

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment **- Much of the requested increase in personal services is due to position vacancies in fiscal 1996. The Executive Budget fully funds FTE for the 1999 biennium. Two hearing officers and an attorney position remained vacant during fiscal 1996, resulting in $96,600 of present law adjustments in fiscal 1998 and $96,636 in fiscal 1999 due to full funding of these positions in the 1999 biennium. These positions were vacant during fiscal 1996 since the anticipated workload increase to meet the new requirements of the contractor registration program did not fully materialize. A legal challenge in the form of a filed injunction resulted in the workload abatement. The FTE are fully funded for the 1999 biennium since the projected increased workload is anticipated.**

4) Legal Services - Operating costs associated with the legal services section of the Department of Labor and Industry increase by $37,654 in fiscal 1998 and $37,830 in fiscal 1999 over actual fiscal 1996 expenditures. The primary reason for the increase is the internal cost allocation plan that supports the department's Centralized Services Division and the Commissioner's Office. The charges increased by $23,738 in fiscal 1998 and $23,914 in fiscal 1999. Other increases include $5,000 each year for contracted services and $7,405 each year for anticipated legal fees and court costs.

5) Legal Services/Contractor Registration - The $25,041 recommended each year of the biennium represents the annualized cost of providing contractor registration legal/hearings functions. Portions of the contractor registration law went into effect on October 1, 1995; however, the requirement to be registered became effective July 1, 1996. Attorney involvement in the program prior to July 1, 1996, was chiefly in response to inquiries from program staff and the public. Post July 1, 1996, the active enforcement activities will result in litigation and increased attorney involvement.

6) Legal/Hearings Equipment - There is $12,500 being recommended in fiscal 1998 and $6,000 in fiscal 1999 to replace single user computers. In addition three Sony BM 148 tape recorders are being recommended in fiscal 1998 at a cost of $2,600 per recorder or $7,800. These recommendations are less than fiscal 1996 actual equipment expenditures by $7, 730 in fiscal 1998 and $22,030 in fiscal 1999.

6602 04

Department of Labor & Industry — **Employment Relations Division**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	106.00	1.50	4.00	111.50	1.50	4.00	111.50	111.50
Personal Services	3,084,433	420,863	113,596	3,618,892	424,780	113,552	3,622,765	7,241,657
Operating Expenses	1,334,381	355,665	4,973	1,695,019	325,185	5,017	1,664,583	3,359,602
Equipment	166,311	31,439	5,000	202,750	(22,711)	0	143,600	346,350
Benefits and Claims	269,617	(15,489)	0	254,128	(25,089)	0	244,528	498,656
Total Costs	$4,854,742	$792,478	$123,569	$5,770,789	$702,165	$118,569	$5,675,476	$11,446,265
General Fund	276,145	(8,816)	0	267,329	(18,490)	0	257,655	524,984
State/Other Special	3,916,651	368,821	122,165	4,407,637	300,974	118,569	4,336,194	8,743,830
Federal Special	296,010	67,866	1,404	365,280	62,689	0	358,699	723,980
Proprietary	365,936	364,607	0	730,543	356,992	0	722,928	1,453,471
Total Funds	$4,854,742	$792,478	$123,569	$5,770,789	$702,165	$118,569	$5,675,476	$11,446,265

Program Description

The Employment Relations Division consists of three distinct programs: Workers' Compensation (WC) Regulation, Labor Standards, and Safety. Functions performed in the WC Regulations Bureau are the regulation of WC insurance as regards coverage requirements, policy compliance, medical regulations, and cost containment. In addition, this bureau administers the Contractor Registration and Independent Contractor Exemption programs. The WC Claims Assistance Bureau assists organizations and individuals to arrive at early, less expensive settlements of their disputes. The Labor Standards Bureau enforces state and federal labor laws related to the payment of wages, and provides collective bargaining mediation. The Safety Bureau administers federal and state industrial safety laws. The Board of Personnel Appeals, which deals with issues related to wage and hour, and collective bargaining disputes between employers and employees, is administratively attached.

The Employment Relations unit operates under a number of state mandates, primarily Titles 18, 37, 39 and 50, MCA, Montana state labor laws; and Montana state health, safety, and mining laws.

Funding

The Employment Relations Division is funded with 76.4 percent state special revenues, 12.7 percent proprietary funds, 6.3 percent federal funds, and 4.5 percent general fund. State special revenue from the Workers Compensation Regulation assessment upon insurers is a primary source of funding (50.7 percent) for this Division. The ESA (UI admin tax) provides 12 percent of total funding. Fees from the contractor registration and independent contractor exemption programs, as well as assessments upon underinsured employers provide additional state special revenue funding. General fund primarily supports the silicosis and social security benefits program. Federal support is derived from coal mine safety, on-site consultation, and UI grant funds.

Proprietary funds from the subsequent injury and the uninsured employers funds totally support benefits to these injured workers, as well as providing partial funding support for division-wide administrative functions and the workers compensation regulation bureau.

The independent contractor unit was funded with federal funds and state special revenues (Workers' Compensation Regulation assessment) during the 1997 biennium. It is funded primarily with: 1) state special revenues, primarily from independent contractor fees (14.5 percent); 2) proprietary funds from the Uninsured Employers Fund for Administration (UEF Adm) (31 percent); 3) federal funds (49.7 percent), and 4) general fund (4.8 percent).

6602 04
Department of Labor & Industry **Employment Relations Division**
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	7.70	0.00	7.70	7.70	0.00	7.70	7.70
Performance Based	330,134	11,616	0	341,750	10,326	0	340,460	682,210
Total Costs	$330,134	$11,616	$0	$341,750	$10,326	$0	$340,460	$682,210
State/Other Special	330,134	11,616	0	341,750	10,326	0	340,460	682,210
Total Funds	$330,134	$11,616	$0	$341,750	$10,326	$0	$340,460	$682,210

Performance-Based Budgeting

The wage and hour unit of the Labor Standards Bureau is one of fourteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the wage and hour unit of the labor standards bureau is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

PBB Labor Standards Functions

Goal: The goal of the wage and hour unit is to provide a forum for the prevention and resolution of work place disputes involving wages and their payment.

Performance Measures:

1) For the 1999 biennium, wage and hour compliance specialists will improve by 2 percent each year the percentage of determinations issued within 55 days of receipt of the wage complaint.

LFD Issue **- A baseline value of percentage of determinations issued within 55 days for fiscal 1996 would clearly establish the level from which to measure performance in the 1999 biennium.**

2) For fiscal 1998 and fiscal 1999, the wage and hour unit will provide a minimum of 40 presentations each year to employer and employee groups.

LFD Issue - **Performance measures based on service delivery and workload demand are most relevant. The demand for presentations from employers and employee groups should be established. The number of presentations requested and provided in fiscal 1996 would provide documentation that this performance standard measures a priority duty of the Wage and Hour unit.**

3) For the 1999 biennium, the wage and hour unit will demonstrate through survey mechanisms that public presentations assist at least 80 percent of the employers attending in the prevention of wage payment problems.

LFD Issue - **This performance measure appears to be designed to document the need for work conducted in the past by the unit. The justification for the need for this type of measure is not documented. It is unclear why a survey should be conducted to verify an assumed result.**

4) For fiscal 1998 and fiscal 1999, the wage and hour unit will resolve 90 percent of cases filed in the fiscal year without need of an administrative hearing.

A baseline level of the percentage of cases resolved without hearings would clearly define the level from which to measure performance in the 1999 biennium. The performance measure as stated does not indicate if performance would improve, worsen, or remain the same compared to fiscal 1996.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative description.

6602 04
Department of Labor & Industry
Employment Relations Division

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	419,088	423,005
02		Inflation/Deflation	(10,218)	(14,377)
03		Fixed Costs	58,114	37,684
		Total Statewide Adjustments	$466,984	$446,312
Significant Present Law Adjustments				
04	79197	ERD Non-Disc Software	0	0
05	79199	PBB - LS Non-Disc. Equip. PC'S	0	0
06	79282	PBB Labor Standards Bureau	8,056	7,696
07	91041	ERD Administration	0	52,237
08	91041	ERD Administrative Unit	61,337	0
09	91042	Workers Comp Claims Assist	24,134	23,276
10	91043	Workers Comp Regulation	29,737	34,869
11	91044	Workers Comp Safety Bureau	7,081	7,150
12	91045	Labor Standards Bureau	11,613	9,307
13	91047	WC Reg/Contractor Registration	45,259	45,259
14	91048	Independent Contractor Unit	0	118,034
15	91048	Independent Contractors Unit	118,034	0
16	91404	ERD Vehicle Lease	1,726	4,728
17	91444	ERD Equipment - Replacement	30,483	(23,667)
		Total Significant PL Adjustments	$337,460	$278,889
Other Base Adjustments			($11,966)	($23,036)
		Grand Total Present Law Adjustments	$792,478	$702,165

LFD Issue - **The present law adjustment column of this division's main table indicates that 1.5 FTE are requested as a present law adjustment for fiscal 1998 and fiscal 1999. However, the executive's present law descriptions do not discuss this FTE addition. In addition, none of the listed adjustments (numbers 4 through 15) request the addition of FTE. Agency officials are prepared to address this discrepancy.**

4) PBB Labor Standards Bureau - This portion of the Labor Standards Bureau -- the wage and hour unit -- is participating in the performance-based budgeting project. Recommended operating costs over the base are $8,056 in fiscal 1998 and $7,696 in fiscal 1999. See the goal and specific performance

measures below.

LFD Comment - **It is not clear to which performance measure the requested increase is related. This adjustment is funded with 100 percent state special revenue (ESA).**

5) ERD Administrative Unit - There is $31,094 recommended each year of the biennium for oracle development assistance to automate work processes for workers' compensation and uninsured employers' fund claims processing. Also, $6,100 each year has been added to restore the administrator's travel budget to the fiscal 1995 level. In fiscal 1996 the administrator had a duel role as administrator of this division and the UI division. Other areas being recommended for increases are equipment maintenance, security protection in fiscal 1998, and indirect costs.

LFD Comment - **This adjustment is funded with 100 percent state special revenue (Workers Compensation Regulation Assessment).**

6) Workers' Comp Claims Assistance - Recommended operating cost increases for this budget amount to $24,134 in fiscal 1998 and $23,276 in fiscal 1999. The primary increase is the internal indirect cost allocation what supports the Centralized Services Division and the Commissioner's office. This amounts to $16,445 in fiscal 1998 and $16,700 in fiscal 1999. Other increases are in the areas of communications and travel. Rent decreases by $1,247 each year.

LFD Comment - **This adjustment is funded with 100 percent state special revenue (Workers Compensation Regulation Assessment).**

7) Workers' Comp Regulation - The allocated internal indirect costs for this budget increase by $31,722 in fiscal 1998 and $31,854 in fiscal 1999, rent increases by $2,786 each year, with minimal increases in some of the other operating categories. Secretarial services decrease by $10,790 each year. Total increase in operating expenses over fiscal 1996 actuals are $29,737 in fiscal 1998 and $34,869 in fiscal 1999.

LFD Comment - **This adjustment is funded with 100 percent state special revenue (Workers Compensation Regulation Assessment).**

8) Workers Comp Safety Bureau - Increases to the Workers' Comp Safety Bureau can be attributed to the internal indirect cost allocation support for the Centralized Services Division and the Commissioner's office. There was $8,481 allocated to this budget in fiscal 1998 and $7,150 in fiscal 1999. The increases were offset by a decrease in rent of $1,844 each year of the biennium.

LFD Comment - **This adjustment is funded with 100 percent state special revenue (Workers Compensation Regulation Assessment).**

9) Labor Standards Bureau - This portion of the bureau budget is not participating in the performance-based budgeting project. Recommended increases amount to $11,613 in fiscal 1998 and $9,307 in fiscal 1999. Travel increases by $4,883 each year, indirect allocations increase by $2,533 annually and are offset by an annual decrease in rent of $1,161. Per diem for the Board of Personnel Appeals increases by $1,100 each year as the agency is estimating 11 meetings per year at $550 per meeting. The board met nine times in fiscal 1996.

LFD Comment - **This adjustment is funded with 100 percent state special revenues (ESA).**

10) WC Reg/Contractor Registration - The recommended operating expense increase amounts to $45,259 each year of the biennium. This is due to annualization of the contractor registration functions with this program, with $15,000 added each year for secretarial services and $26,469 for travel increases. Other increases are in the areas of communications and supplies and materials.

LFD Comment **- For a related discussion, see the new proposal (number 2) for this division, entitled 'Contractor Registration Workload." The adjustment is funded with state special revenue (Worker Compensation Regulation Assessment).**

11) Independent Contractors Unit - The 1995 legislature mandated a uniform procedure for the review of employer/employee relationships (HB 550), and authorized a new independent contractors (IC) renewal process (HB 200). Administrative rules created this combined IC unit beginning July 1, 1996, to implement the 1995 legislation. Although there is no base year experience in costs for this new unit, the IC workload is anticipated to be greater for the 1999 biennium than available permanent staffing will be able to process. The contracted cost for the new IC unit to help complete its work is estimated at $111,784 for each of the fiscal years, based on comparable workload costs in a comparable work unit.

LFD Comment **- This adjustment is funded with 100 percent state special revenues (Independent Contractor Exemption Fees). The majority of expenditures are budgeted for consulting and professional services. Agency officials indicate that the contracted services will be in the area of legal services, public information, investigation of cases, and status determinations. In addition, support services will be contracted to process the IC exemptions and renewals, and issue certificates.**

12) ERD Vehicle Lease - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $3,150 in fiscal 1998 for one sedan and $6,000 in fiscal 1999 for two sedans. In addition, there is $3,000 in fiscal 1999 to continue the first year vehicle. The vehicles will be located in Helena, Billings, and Missoula. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $1,424 in fiscal 1998 and $2,072 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

LFD Comment **- This adjustment is funded with 75 percent state special revenue, and 25 percent federal revenue.**

13) ERD Equipment - Replacement - Replacement equipment amounting to $191,750 in fiscal 1998 and $137,600 in fiscal 1999 is being recommended. Primarily personal computers would be replaced with some office equipment and furniture also being replaced. The recommendation is $30,483 over the fiscal 1996 base in fiscal 1998 and $23,667 under the base in fiscal 1999.

LFD Comment **- This adjustment is funded with 61 percent proprietary funds, 33 percent federal funds, and 6 percent state special revenue.**

Other Base Adjustments - There was $269,167 distributed in fiscal 1996 for the Silicosis and Social Security Offset Program. Projections for the new biennium are $254,128 in fiscal 1998 and $244,528 in fiscal 1999. This is a reduction of $15,489 in fiscal 1998 and $25,089 in fiscal 1999.

6602 04
Department of Labor & Industry **Employment Relations Division**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Erd Equipment - New			5,000	5,000				
02 Contractor Registration Workload	4.00		118,569	118,569	4.00		118,569	118,569
Total For New Proposals	4.00		$123,569	$123,569	4.00		$118,569	$118,569

Executive New Proposals

1) ERD Equipment - New - This $5,000 equipment recommendation will supply an industrial hygienist in Billings with a Bacharach mercury detector to monitor or detect mercury and a Quest heat stress monitor that shows an employee's stress response to high heat and/or high humidity conditions.

LFD Comment **- This proposal is funded with state special revenue from the Workers Compensation Assessment account (72 percent), and federal funds (28 percent). The funds would be used in the Safety Bureau.**

2) Contractor Registration Workload - The costs represented in this recommendation reflect the addition of 4.00 FTE to staff the enforcement function of the contractor registration program. The department anticipates a greater enforcement workload than existing staff will be able to manage, due to geographic size of the state and the level of enforcement expected by the construction industry. In addition to personal services costs, there are estimated travel costs for each position of $1,243 in fiscal 1998 and $1,254 in fiscal 1999. It is anticipated that the positions will be located in Great Falls, Kalispell, Helena, and Bozeman.

LFD Comment **- DOLI indicates that a backlog of 1,570 pending cases and 749 new or renewal applications exists. The request is for 4.0 FTE Grade 13 Compliance Specialists. This proposal is funded with state special revenues generated from fees from contractor registration (74 percent) and independent contractors (26 percent). It is anticipated at the time of preparation of this report that legislation will also be introduced that could modify, upward or downward, the staffing requirements for compliance activities in this program. The legislature may wish to adjust this proposal based upon the outcome of this legislation.**

6602 08

Department of Labor & Industry — **Human Rights Commission**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	16.00	0.00	2.50	18.50	0.00	2.50	18.50	18.50
Personal Services	566,897	31,238	77,549	675,684	32,276	77,520	676,693	1,352,377
Operating Expenses	210,659	9,732	24,053	244,444	6,391	27,082	244,132	488,576
Equipment	9,973	5,227	6,000	21,200	2,027	3,000	15,000	36,200
Total Costs	$787,529	$46,197	$107,602	$941,328	$40,694	$107,602	$935,825	$1,877,153
General Fund	558,696	33,864	0	592,560	29,847	0	588,543	1,181,103
State/Other Special	19,960	2,040	0	22,000	2,040	0	22,000	44,000
Federal Special	208,873	10,293	107,602	326,768	8,807	107,602	325,282	652,050
Total Funds	$787,529	$46,197	$107,602	$941,328	$40,694	$107,602	$935,825	$1,877,153

Program Description

The Human Rights Commission is responsible for enforcement of the Montana Human Rights Act and the Governmental Code of Fair Practices through investigations, conciliation, hearings, and education. It is responsible for enforcing laws which prohibit discrimination in employment, housing, public accommodations, financing and credit transactions, insurance, education, and government services. The commission is administratively attached to the department.

The activities of the Human Rights Commission are mandated by state law, which is found primarily in Title 49, Chapters 2 and 3, MCA, the Montana Human Rights Act and the Code of Fair Practices. Relying on the Civil Rights Act of 1964 and the Fair Housing Act, federal agencies also mandate some aspects of the commission program as a condition of funding their program.

Funding

The Commission is funded with general fund (63 percent), state special revenue (2.3 percent), and federal funds (34.7 percent). The federal funds are from the Equal Employment Opportunity Commission (EEOC) and the Department of Housing and Urban Development (HUD). The majority of the state special revenues are from civil penalties levied for housing discrimination, with a minor amount of support being provided from fees for miscellaneous services.

6602 08
Department of Labor & Industry **Human Rights Commission**
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	16.00	2.50	18.50	16.00	2.50	18.50	18.50
Performance Based	787,529	34,670	107,602	929,801	32,441	107,602	927,572	1,857,373
Total Costs	$787,529	$34,670	$107,602	$929,801	$32,441	$107,602	$927,572	$1,857,373
General Fund	558,696	25,449	0	584,145	23,822	0	582,518	1,166,663
State/Other Special	19,960	2,040	0	22,000	2,040	0	22,000	44,000
Federal Special	208,873	7,181	107,602	323,656	6,579	107,602	323,054	646,710
Total Funds	$787,529	$34,670	$107,602	$929,801	$32,441	$107,602	$927,572	$1,857,373

Performance-Based Budget

The Human Rights Commission is one of sixteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the human rights commission is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The agency shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal: To maintain the current system of enforcing Montana laws prohibiting discrimination by providing a forum for resolution and adjudication of complaints of unlawful discrimination.

Objective 1: Address complaints of discrimination filed with the commission in as timely a manner as possible.

Performance Measures:

1) Close 575 to 625 cases per year.

2) Maintain average case processing time of 16 months.

3) Assign 90 percent of new cases for investigation within 10 months of filing.

4) Maintain open case inventory under 800 cases.

LFD Comment **- Establishment of the historical performance levels for the program would provide a meaningful baseline from which to evaluate the measures of performance. Fiscal 1996 numbers of cases closed per year, and number of open cases in inventory, for example, would provide a basis from which to measure future performance. In addition, establishment of the average case processing and assignment times experienced in fiscal 1996 would clearly provide a baseline by which to measure future performance.**

The number of cases received and managed by the commission varies on an annual basis. Basing performance measures on numbers of cases will not discern changes in performance under these circumstances. Performance measures expressed as the percentage closed of the total number of managed cases per year are a more accurate index of performance. The open case inventory performance measure could then be expressed as the percent remaining open of all managed cases. Percentage improvements in processing time could also be selected under this structure,

Objective 2: Achieve measures designed to eliminate discrimination identified in commission investigations and hearings.

Performance Measure:

1) Include measures designed to correct discriminatory practices in all cases in which the commission finds unlawful discrimination.

LFD Comment **- The performance measure is unclear in regard to: 1) what the measures are that will be included; 2) how this inclusion is tied to performance of the program; and 3) how changes in performance will be determined.**

Assumptions:

1) New complaint filings do not exceed 650 per year.

2) Vacancy rate for investigative and hearing staff due to turnovers or leaves of absence does not exceed 10%.

3) Federal funding is not less than 95 percent of the amount appropriated by the legislature.

LFD Comment **- The impact of the assumptions upon the program's ability to meet the stated performance measures is unclear. For example, if federal funding falls to 94 percent of that amount appropriated by the legislature, it is unclear which, if any, of the performance measures are still applicable and achievable. Since federal funding represents 35 percent of the program's budget, a small reduction in it would have a mitigated impact on staffing levels, as an example.**

A historical baseline level for new complaint filings per year and the vacancy rate for the indicated staff would provide a basis by which to judge the impact of these assumptions upon the usefulness of the performance measures.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to

6602 08 Department of Labor & Industry Human Rights Commission			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	29,081	30,119
02		Inflation/Deflation	(2,118)	(2,235)
03		Fixed Costs	7,707	4,557
		Total Statewide Adjustments	$34,670	$32,441
Significant Present Law Adjustments				
04	79199	PBB - HRC Non-Disc. PC'S	0	0
05	79273	PBB-HRC Equipment - Replacement	5,227	2,027
06	79281	Performance Based	6,300	6,226
		Total Significant PL Adjustments	$11,527	$8,253
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$46,197	$40,694

all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) PBB-HRC Equipment - Replacement - Four personal computers per year are being recommended for replacement, plus a conference recorder in fiscal 1998. The projected costs are $15,200 in fiscal 1998 and $12,000 in fiscal 1999 supported 73 percent with general fund and 27 percent with federal funds. This results in an increase of $4,227 and $2,027 respectively over base.

LFD Comment **- The increase is for $5,227 in fiscal 1998.**

5) Performance Based - This recommended performance-based budget includes operational expense increases of $6,300 in fiscal 1998 and $6,226 in fiscal 1999. These expenses include an additional $157 each year for investigators and administrative staff overtime, $3,000 each year for board per diem, $4,088 for out-of-state travel each year that is required by terms of its federal contracts, and non-Department of Administration rent annual increase of $654. There was an $8,740 annual decrease in expenses for computer operational support, a service provided by a non-governmental agency that is not being continued into the new biennium. The decrease, however, was offset by increases of $7,190 in fiscal 1998 and $7,345 in fiscal 1999 for Department of Labor indirect charges.

LFD Comment **- This adjustment is funded with 73 percent general fund and 27 percent federal funds.**

6602 08
Department of Labor & Industry **Human Rights Commission**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	PBB - Reduce HRC Inventory	2.50		107,602	107,602	2.50		107,602	107,602
	Total For New Proposals	2.50		$107,602	$107,602	2.50		$107,602	$107,602

New Proposals Description

1) PBB - Reduce HRC Inventory - The executive did not include a description of this item. The agency request noted that the funds would be used to: 1) address complaints of discrimination filed with the commission in a timely manner; 2) increase the percentage of cases completed by the commission with a resolution on the merits; and 3) achieve measures designed to eliminate discrimination identified in commission investigations and hearings.

LFD Comment **- This proposal is funded with 100 percent federal funds. Agency officials indicate that the sources are the federal HUD agency and possibly EEOC. The $60,000 per year of anticipated HUD funds are required to be spent to support fair housing enforcement. The availability of the EEOC funds were noted as being highly speculative. Therefore, the legislature may wish to make any action contingent upon receipt of the funds.**

6602 09 Department of Labor & Industry Program Proposed Budget					Workers Compensation Court			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	6.00	0.00	0.00	6.00	0.00	0.00	6.00	6.00
Personal Services	252,295	(2,187)	0	250,108	(2,169)	0	250,126	500,234
Operating Expenses	88,242	19,858	0	108,100	19,209	0	107,451	215,551
Equipment	0	9,500	0	9,500	23,000	0	23,000	32,500
Total Costs	$340,537	$27,171	$0	$367,708	$40,040	$0	$380,577	$748,285
State/Other Special	340,537	27,171	0	367,708	40,040	0	380,577	748,285
Total Funds	$340,537	$27,171	$0	$367,708	$40,040	$0	$380,577	$748,285

Program Description

The Workers' Compensation Court provides a forum for Montana employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease. The court is attached to the department for administrative purposes.

The Workers' Compensation Court operates under state mandate, primarily Title 39, MCA, including the Workers' Compensation Act and Occupational Disease Act.

Funding

This program is funded entirely with state special revenue from assessments upon workers' compensation insurers.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6602 09 Department of Labor & Industry Workers Compensation Court			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(2,187)	(2,169)
02		Inflation/Deflation	(154)	(162)
03		Fixed Costs	2,994	1,866
		Total Statewide Adjustments	$653	($465)
Significant Present Law Adjustments				
04	79199	WCC Non-Disc PC'S	0	0
05	91091	Consulting & Professional Services	9,784	9,784
06	91092	Travel	3,826	3,826
07	91901	WCC Equipment - Replacement	9,500	23,000
		Total Significant PL Adjustments	$23,110	$36,610
Other Base Adjustments			$3,408	$3,895
		Grand Total Present Law Adjustments	$27,171	$40,040

4) Consulting and Professional Services - There is $17,625 being recommended each year of the biennium. First, there are court reports required for all trials and other proceedings at which the Workers' Compensation Court (WCC) deems a record is necessary. Second, the Workers' Compensation Court judge may have to recuse himself in certain case, e.g., involvement prior to appointment. When it is necessary to ask a district court judge to hear the case, the district court judge

may use a hearing examiner for which the WCC must pay.

LFD Comment **- The requested amount is $9,784 for each year of the biennium. It is funded with 100 percent state special revenues.**

5) Travel - An additional $3,826 per year is being recommended for travel. There is $1,501 to cover anticipated in-state travel needs and $2,325 for out-of-state to allow the judge to attend the IAIABC convention and the National Judicial College.

LFD Comment **- This item is funded with state special revenues.**

6) WCC Equipment-Replacement - The court would replace one server at an estimated cost of $7,500 and one tape back-up unit for $2,000 in fiscal 1998. In fiscal 1999, the request is to replace six personal computers, two laser printers, and a FAX machine at a total projected cost of $23,000.

LFD Issue **- This item is funded with state special revenues. There are 6 FTE assigned to this program. Hence, the replacement of six personal computers in fiscal 1999 represents a one-to-one ratio of new computers to program FTE. Agency officials indicate that obsolete equipment is replaced every five years, and that these computers have not been replaced since 1992 and 1993. The program's replacement schedule is timed such that all computers are replaced during the same year. Therefore, the legislature may wish to designate this as a one-time-only adjustment.**

Other Base Adjustments - Making up the other base adjustments include a non-Department of Administration rent increase of $892 in fiscal 1998 and $1,355 in fiscal 1999. The department indirect charges increase by approximately $2,500 per year.

6701 00

Agency Proposed Budget

Department of Military Affairs

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	94.90	0.00	9.23	104.13	0.00	12.30	107.20	104.13
Personal Services	3,017,067	220,299	274,991	3,512,357	222,454	366,542	3,606,063	7,118,420
Operating Expenses	2,869,366	585,520	133,892	3,588,778	562,158	133,892	3,565,416	7,154,194
Equipment	119,460	(75,060)	0	44,400	(75,060)	0	44,400	88,800
Capital Projects	0	0	0	0	0	0	0	0
Grants	706,667	(63,893)	0	642,774	(63,893)	0	642,774	1,285,548
Benefits and Claims	2,280	0	0	2,280	0	0	2,280	4,560
Transfers	0	0	0	0	0	0	0	0
Debt Service	5,899	(5,899)	0	0	(5,899)	0	0	0
Total Costs	$6,720,739	$660,967	$408,883	$7,790,589	$639,760	$500,434	$7,860,933	$15,651,522
General Fund	2,066,463	299,629	34,251	2,400,343	262,917	45,336	2,374,715	4,775,058
State/Other Special	64,550	14,523	22,450	101,523	14,533	28,268	107,351	208,874
Federal Special	4,589,726	346,815	352,182	5,288,723	362,310	426,830	5,378,867	10,667,590
Total Funds	$6,720,739	$660,967	$408,883	$7,790,589	$639,760	$500,434	$7,860,933	$15,651,522

Mission Statement

The mission of the Department of Military Affairs is to prepare for and provide:

* Mission ready forces to the federal government as directed by the President of the United States.
* Emergency services to civil authorities as directed by the Governor of Montana.
* Service to the community as approved by proper authority.
* Service to Montana veterans and their family members.

Agency Description

The Department of Military Affairs oversees all activities of the Army and Air National Guard, Disaster Coordination Response Division, and Veterans Affairs Division. The department is administered by the Adjutant General, as provided for in 2-15-1201, MCA. The department manages a joint federal-state program that keeps trained and equipped military organizations in readiness for the Governor in the event of a state emergency, and for the President of the United States in the event of a national emergency. Federal agencies control the military strength and mobilization missions of the Montana Guard. The department also plans for and coordinates state responses in disaster and emergency situations (Title 10, Chapter 3, MCA). The department manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families (Title 10, Chapter 2, MCA). The Montana Board of Veterans Affairs is administratively attached to the department.

6701 00

Department of Military Affairs **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	94.90	9.23	104.13	94.90	12.30	107.20	94.90	104.13
Personal Services	3,237,366	274,991	3,512,357	3,239,521	366,542	3,606,063	6,177,776	7,118,420
Operating Expenses	3,454,886	133,892	3,588,778	3,431,524	133,892	3,565,416	5,953,349	7,154,194
Equipment	44,400	0	44,400	44,400	0	44,400	126,860	88,800
Capital Projects	0	0	0	0	0	0	0	0
Grants	642,774	0	642,774	642,774	0	642,774	1,372,667	1,285,548
Benefits and Claims	2,280	0	2,280	2,280	0	2,280	4,560	4,560
Transfers	0	0	0	0	0	0	60,000	0
Debt Service	0	0	0	0	0	0	5,899	0
Total Costs	$7,381,706	$408,883	$7,790,589	$7,360,499	$500,434	$7,860,933	$13,701,111	$15,651,522
General Fund	2,366,092	34,251	2,400,343	2,329,380	45,336	2,374,715	4,197,868	4,775,058
State/Other Special	79,073	22,450	101,523	79,083	28,268	107,351	141,841	208,874
Federal Special	4,936,541	352,182	5,288,723	4,952,036	426,830	5,378,867	9,361,402	10,667,590
Total Funds	$7,381,706	$408,883	$7,790,589	$7,360,499	$500,434	$7,860,933	$13,701,111	$15,651,522

6701 01
Department of Military Affairs — **Operations Support**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	6.60	0.00	0.00	6.60	0.00	0.00	6.60	6.60
Personal Services	258,220	16,190	0	274,410	16,785	0	275,005	549,415
Operating Expenses	49,338	9,238	0	58,576	1,481	0	50,819	109,395
Equipment	12,536	(5,936)	0	6,600	(5,936)	0	6,600	13,200
Benefits and Claims	2,280	0	0	2,280	0	0	2,280	4,560
Total Costs	$322,374	$19,492	$0	$341,866	$12,330	$0	$334,704	$676,570
General Fund	291,968	17,646	0	309,614	10,353	0	302,321	611,935
Federal Special	30,406	1,846	0	32,252	1,977	0	32,383	64,635
Total Funds	$322,374	$19,492	$0	$341,866	$12,330	$0	$334,704	$676,570

Program Description

The Operations Support Program provides departmental administration through the Office of the Adjutant General for the Air and Army National Guard, Disaster and Emergency Services, and administrative support for the Veterans Affairs Division. The Centralized Services Division provides the accounting, administrative, budgetary, personnel, labor relations, purchasing oversight, and fiscal support for the Department of Military Affairs.

Funding

The program is funded with approximately 90 percent general fund and 10 percent federal funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6701 01
Department of Military Affairs — Present Law Adjustments/Issues
Operations Support

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	13,690	14,285
02		Inflation/Deflation	(903)	(1,269)
03		Fixed Costs	676	(6,715)
		Total Statewide Adjustments	$13,463	$6,301
Significant Present Law Adjustments				
04	91011	Operations Support	6,029	6,029
		Total Significant PL Adjustments	$6,029	$6,029
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$19,492	$12,330

4) Operations Support - The Department of Military Affairs is one of the pilot agencies for the procurement card for state agencies. There will be monthly charges to the vendor (G. E. Capital) as well as the Department of Administration (DoA) system charges to integrate the product with state systems. This will be an additional charge of $1,800 each year of the biennium. In addition, the agency is requesting $7,665 each year of the biennium for the continuation of a current contract with the DoA to provide LAN administration. The contract is for $15,330 annually, but only half of the contract is supported within this budget. The other half is in the Disaster and Emergency Services Program.

The agency is requesting $6,600 in fiscal 1998 and fiscal 1999 for the replacement of computers and the upgrading of software. The equipment request is $5,936 less than fiscal 1996 actual expenditures.

A net increase to this program over fiscal 1996 base is $6,029 each year of the biennium.

LFD Comments **- The department entered into a contract this year for LAN computer support through the Information Services Division (ISD) of the Department of Administration at an annual cost of $15,330. The department advised that prior to this time, it did not have adequate computer support services due to the lack of a contractual arrangement with a computer services vendor.**

6701 12

Department of Military Affairs — **Army National Guard Program**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	19.00	0.00	6.23	25.23	0.00	8.30	27.30	25.23
Personal Services	544,442	91,012	189,318	824,772	86,778	252,310	883,530	1,708,302
Operating Expenses	2,014,149	362,991	110,000	2,487,140	360,897	110,000	2,485,046	4,972,186
Equipment	63,442	(57,442)	0	6,000	(57,442)	0	6,000	12,000
Transfers	0	0	0	0	0	0	0	0
Total Costs	$2,622,033	$396,561	$299,318	$3,317,912	$390,233	$362,310	$3,374,576	$6,692,488
General Fund	845,101	153,158	11,833	1,010,091	130,387	15,778	991,265	2,001,357
State/Other Special	0	0	22,450	22,450	0	28,268	28,268	50,718
Federal Special	1,776,932	243,403	265,035	2,285,370	259,846	318,264	2,355,043	4,640,413
Total Funds	$2,622,033	$396,561	$299,318	$3,317,912	$390,233	$362,310	$3,374,576	$6,692,488

Program Description

The Army National Guard program provides a trained and equipped military organization for use in the event of a state or national emergency. The state supports these missions by providing professional and skilled personnel for the administration, planning, and execution of statewide repair and maintenance functions on facilities and training areas; for planning of new construction; and to ensure all activities and facilities comply with environmental regulations. Statewide communication services, security contracts, and leases for buildings and land are provided for the Montana Army Guard under this program.

Funding

The Army National Guard program is funded with a combination of general fund, state special revenue, and federal funds. Depending on how a facility maintained by the program is used, its costs are either funded: 1) entirely with state funds; 2) entirely with federal funds; or 3) as a shared responsibility, with federal funds responsible for 75 percent of the cost and state funds responsible for 25 percent.

During the 1997 biennium, state special revenue funds from armory rental fees were substituted for general fund. The state special revenue fees are intended for use in addressing maintenance needs at armories across the state.

6701 12

Department of Military Affairs — Present Law Adjustments/Issues

Army National Guard Program

		Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	91,012	86,778
02		Inflation/Deflation	10,276	18,319
03		Fixed Costs	16,766	9,365
		Total Statewide Adjustments	$118,054	$114,462
Significant Present Law Adjustments				
04	91121	Utilities-Army Aasf Building	41,250	55,000
05	91122	Utilities-Training Site Suprt	45,000	60,000
06	91125	Paint Maintenance/St Armories	85,500	65,000
07	91128	Communications Army	50,000	50,000
08	91129	Environmental Federal Auth	80,000	80,000
09	91133	Army Guard Equipment - Replacement	(57,442)	(57,442)
10	91134	Army Guard State Maintenance	19,093	19,033
11	91135	Army Guard Aviation Agreements	7,645	7,645
12	91136	Army Guard Contracts And Leases	6,941	(3,985)
		Total Significant PL Adjustments	$277,987	$275,251
Other Base Adjustments			$520	$520
		Grand Total Present Law Adjustments	$396,561	$390,233

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Utilities - Army AAF Building - The new Army Aviation Support Facility (AASF), currently under construction at the Helena Airport, is scheduled to be completed in October, 1997. The facility is categorized as a logistics facility by the National Guard and is supported 75 percent federal funds and 25 percent general fund. There is $41,250 recommended for utilities in fiscal 1998 and $55,000 in fiscal 1999.

LFD Comment **- The Army Aviation Support Facility is being constructed with 100 percent federal funds and on federal land. During the 1995 legislative session, the legislature was made aware that Congress had appropriated funds to construct this facility. Therefore, the legislature did not approve nor appropriate funds for this purpose.**

5) Utilities - Training Site Support Building - The Training Site Support Facility (TSSF) under construction at Fort Harrison is due to be completed in October, 1997. There will be 175 rooms in the new building with a large kitchen and dining room as well as laundry facilities, storage areas, and administrative space. The building will house soldiers in training at the fort. The building is categorized by the National Guard as a training site building, located on federal land, and is funded 100 percent with federal funds. There is $45,000 recommended for utilities in fiscal 1998 and $60,000 in fiscal 1999.

6) Paint Maintenance/State Armories - The state has 18 armories statewide which require exterior painting on an average paint cycle of eight years. The executive is recommending $85,500 in fiscal 1998 and $65,000 in fiscal 1999 for exterior paint projects in Chinook, Kalispell annex, Lewistown, Livingston, Plentywood, Sidney, Culbertson, Deer Lodge, Miles City, and Whitefish.

LFD Comment **- The department has indicated that painting maintenance projects were funded through the Long-Range Building Program (LRBP) in previous biennia on a sporadic basis. In the 1997 biennium, the legislature approved a one-time only appropriation totaling $185,000 in the biennium for the Armory routine maintenance backlog (which included some funding for painting maintenance). Due to the fact that these on-going maintenance projects no longer qualify for LRBP funding, the executive is requesting general fund of $150,500 in the 1999 biennium to address the backlog in painting maintenance.**

7) Communications - Army - The executive is recommending $50,000 of federal spending authority each year of the biennium to upgrade the Army Guard electronic communications. In prior years the upgrades were supported directly by the Guard Bureau; now the expenditures will be made at the state level, but still be supported 100 percent with federal funds.

8) Environmental Federal Authority - It is anticipated that during the 1999 biennium, environmental projects required by the Montana Army National Guard will exceed current level funding. The executive is recommending an additional $80,000 of federal authority per year for environmental projects. These projects could include studies of assessing environmental impacts related to guard training activities, providing equipment/supplies related to environmental compliance, funding of state permitting fees, and other unanticipated expenses that arise when 3,000 guard members conduct their training missions and try to comply with environmental regulations.

9) Army Guard Equipment - Replacement - The equipment request by the Army Guard is $6,000 each year to replace computers. This is a reduction of $57,442 from the fiscal 1996 base. Funding is split 50 percent general fund and 50 percent

federal funding.

10) Army Guard State Maintenance - This program purchased a truck for its maintenance employee located in Bozeman who travels the state performing repairs on the armories and shops. The purchase was through the Department of Administration Purchasing Division on a three-year purchasing option. There is $6,500 is being recommended each year of the biennium for the purchase. In addition, the estimated costs for gasoline have been increased by $1,266 each year. Personal car mileage has been reduced by $4,535 each to offset the truck purchase. This results in a net increase of $3,231 per year.

The balance of the increase is due to accounting procedure errors. The Department of Justice is billed for janitorial services and electricity for the space occupied by the Highway Patrol dispatch center in the Helena armory. When the funds were received, the expenditures were abated; instead they should have remained as expenditures and the revenues deposited in the general fund. The Accounting Division of the Department of Administration and the Legislative Audit Division both agree that the expenditures should not be abated.

11) Army Guard Aviation Agreements - The aviation component of the Army Guard is located at the Helena Regional Airport and has two agreements with the airport authority. First, there is a use agreement which is basically a rent charge in lieu of landing fees, with charges based on estimated gallonage of fuel at $0.055 per gallon. The estimated fiscal 1997 usage is 389,000 gallons or $21,395. The same amount is used for fiscal 1998 and fiscal 1999 budgets. Second, there is a service agreement for services provided such as snow removal, grounds maintenance, runway/taxiway marking, temporary aircraft parking and tie-downs, building and crash fire assistance, and runway/taxiway repair. The annual cost for this service was budgeted at $6,525. Fiscal 1996 actual expenditures were $20,275, resulting in an increase of $7,645 annually.

LFD Comment **- The annual present law increase of $7,645, as requested by the executive, is a 38 percent increase over 1996 base expenditures of $20,275. The total executive budget request for Army Guard aviation agreements is $27,920 each year.**

12) Army Guard Contracts and Leases - The Army Guard currently has security contracts for the STARC Armory of $28,836; Fort Harrison, Missoula, and Limestone Hills of $137,202; and Helena Regional Airport of $34,116. These total $200,154 or $13,411 over the fiscal 1996 base. There also are two leases for hangar space for the C12 aircraft, which will be moved to the completed AASF building in fiscal 1998, and for space of the Drug Enforcement Unit. The current lease charges amount to $26,796, but will decrease to $15,870 in fiscal 1998 and $4,944 in fiscal 1999. These costs are supported with federal funds.

LFD Comments **- The present law increase in Army Guard security contracts totals $26,822 for the 1999 biennium. The present law reduction in Army Guard hangar leases amounts to a decrease of $23,866 for the 1999 biennium. These combined present law adjustments result in a net increase in Army Guard contracts and leases of $2,956 for the 1999 biennium, and are funded 100 percent with federal funds.**

6701 12
Department of Military Affairs **Army National Guard Program**
Executive Budget New Proposals

New Proposal Description		Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01	Contracting & Construction	3.75		229,746	229,746	5.00		271,327	271,327
02	Facilities Mngmt Support Fte	0.75	7,479	17,450	24,929	1.00	9,972	23,268	33,240
03	Oto Armory Rental Funds			5,000	5,000			5,000	5,000
04	Environmental Tech. Position	0.75		15,904	15,904	1.00		21,204	21,204
05	Maintenance Pers Army Guard	0.75	4,354	15,437	19,791	1.00	5,806	20,583	26,389
06	Environmental Intern	0.23		3,948	3,948	0.30		5,150	5,150
	Total For New Proposals	6.23	$11,833	$287,485	$299,318	8.30	$15,778	$346,532	$362,310

Executive New Proposals

1) Contracting and Construction Division - The Contracting and Construction Division is responsible for the contracting and construction of buildings on state and federal land, from authorization to final warranty inspection. The division goal is to ensure the process is efficient, timely, and as cost effective as possible. The division directs, reviews, and approves the development of projects to assure they are of reasonable quality, are safe, satisfy the user needs, conform to legislative or congressional intent, are within budget, and the work product is clear and accurate. Recommended are 3.75 FTE in fiscal 1998 and 5.00 FTE in fiscal 1999 plus operating costs.

LFD Comment **- This request proposes the creation of a new division within the Army Guard Program to manage and coordinate construction projects. The new proposal requests a total of 5.0 FTE and assocated operating costs in the 1999 biennium which are to be 100 percent federally funded. The executive is requesting $229,746 in fiscal 1998 and $271,327 in fiscal 1999 to fund the Contracting and Construction Division.**

2) Facilities Management Support FTE - A professional position to provide technical support in the management of Army Guard facilities is being recommended. The position would have the responsibility for implementation and operation of a direct digital control system for utilities in addition to analyzing the utility costs in comparison to size and type of facilities and identify possible cost saving projects.

LFD Comment **- The 1.0 FTE technical facilities management support position will be funded with 30 percent general fund and 70 percent federal funds.**

3) OTO Armory Rental Funds - Armories are sometimes rented to organizations for meetings, and the rent income deposited in a state special revenue account to be used to offset operating costs of the facility. This was implemented by the 1995 legislature, but the authority was restricted to the 1997 biennium. There is $5,000 of state special revenue authority being recommended each year of the biennium to enable this activity to continue.

4) Environmental Technician Position - The National Guard Bureau (NGB) has authorized and funded this position in order for the state Environmental Office to comply with the technical and administrative requirements mandated by current law. These requirements include NGB mandated reports and environmental compliance reports required to meet federal and state regulations. The position would also provide technical and administrative support. The executive is recommending the

position be 100 percent federally funded.

LFD Comment **- The department has indicated that the duties of the newly-requested Environmental Technician position have been provided for the last two years by a temporary FTE. The position was requested as a permanent FTE in the 1997 biennium but not approved by the legislature.**

5) Maintenance Position Army Guard - An additional maintenance position is being recommended to assist the existing seven maintenance employees who are responsible for the maintenance of Army Guard facilities in the Helena area. Two new facilities, the 120,000 square foot AASF building at the Helena Regional Airport and the 100,000 square foot TSSF located at Fort Harrison, are scheduled for completion within the 1999 biennium. The funding split would be 22 percent general fund and 78 percent federal special revenue.

6) Environmental Intern - It is recommended that the state Environmental Office participate in the National Guard Bureau's Environmental Intern Program. Employment is typically during the summer for up to 12 weeks. The program allows college students majoring in environmental engineering or earth sciences the opportunity to apply their knowledge to real world environmental projects and issues. The program would be 100 percent federally funded.

LFD Comment **- The executive requests federal spending authority of $3,948 in fiscal 1998 and $5,150 in fiscal 1999.**

6701 13

Department of Military Affairs — **Air National Guard Program**

Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	31.00	0.00	1.50	32.50	0.00	2.00	33.00	32.50
Personal Services	1,045,070	13,830	39,583	1,098,483	17,271	52,778	1,115,119	2,213,602
Operating Expenses	579,161	127,076	0	706,237	135,346	0	714,507	1,420,744
Equipment	9,495	(9,495)	0	0	(9,495)	0	0	0
Benefits and Claims	0	0	0	0	0	0	0	0
Total Costs	$1,633,726	$131,411	$39,583	$1,804,720	$143,122	$52,778	$1,829,626	$3,634,346
General Fund	156,210	28,199	9,896	194,305	30,295	13,195	199,700	394,005
Federal Special	1,477,516	103,212	29,687	1,610,415	112,827	39,584	1,629,927	3,240,342
Total Funds	$1,633,726	$131,411	$39,583	$1,804,720	$143,122	$52,778	$1,829,626	$3,634,346

Program Description

The Air National Guard program maintains a trained and equipped military organization for use in the event of a state or national emergency. The program staff provides clerical, facilities maintenance, and fire protection support to the Air National Guard base at Gore Hill near Great Falls.

The Air National Guard Program operates under both federal and state mandates in accordance with its dual missions to maintain a trained and ready military force and a state civil disaster response capability.

Funding

The Air Guard program is supported with general fund and federal funds. Personal services costs for firefighters, the contract for firefighting support with the Great Falls airport, and payroll service fees are federally funded. The balance of the program costs are supported 75 percent with federal funds and 25 percent with general fund.

6701 13

Department of Military Affairs — **Air National Guard Program**

Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	31.00	2.00	33.00	31.00	2.00	33.00	33.00
Performance Based	1,633,726	143,122	52,778	1,829,626	143,122	52,778	1,829,626	3,659,252
Total Costs	$1,633,726	$143,122	$52,778	$1,829,626	$143,122	$52,778	$1,829,626	$3,659,252
General Fund	156,210	30,295	13,195	199,700	30,295	13,195	199,700	399,399
Federal Special	1,477,516	112,827	39,584	1,629,927	107,564	39,584	1,624,664	3,254,590
Total Funds	$1,633,726	$143,122	$52,778	$1,829,626	$137,859	$52,778	$1,824,363	$3,653,989

Performance-Based Budget

The Montana Air National Guard is one of sixteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the Montana air national guard is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Program Mission Statement: The Montana Air National Guard (ANG) is to ensure ANG facilities can support the unit flying and training program, Governor's call for emergency response, maintain real property facilities, and implement programs which improve the functionality of the installation.

Program Goals:

Goal 1: Provide reliable facilities and utilities to meet readiness requirements and satisfy installation needs.

Performance Measure/Target:

1) All outside agency directed inspections, audits, or staff assistance visits rated satisfactory or higher.
   a) No mission cancels attributed to facilities or airfield management.

Goal 2: Conduct all activities in compliance with environmental, fire, and safety laws and directives.

Performance Measure/Target:

1) No notices of violation of environmental, fire, or safety laws or directives.
   a) All environmental and safety inspections, assistance visits, and audits rated satisfactory or higher.

Goal 3: Operate, maintain, repair, and construct ANG real property and real property installed equipment to accomplish the mission most economically.

Performance Measure/Target:

1) Facility maintenance annual assessments by ANG Civil Engineering Technical Services all rated satisfactory or higher.
   a) Unit repair and maintenance costs to be 1.5 percent of construction cost.
   b) Energy conservation programs in place to ensure utility costs not exceed design data criteria and facility energy budget.
   c) Total state share of FOMA not to exceed .0065 percent of replacement cost of facilities.

Goal 4: Provide management of contract services, e.g., refuse disposal, pest control, minor construction, design, grounds maintenance.

Performance Measure/Target:

1) Self assessment of AF Forms 332 to show 100 percent project completion as estimated to customer.
   a) Contract services not to exceed 25 percent of repair and maintenance budget.

LFD Comment **- The Montana Air National Guard has developed specific performance measures which support program goals in the area of facilities management. As Table 1 indicates, the program has met or exceeded the performance goals/targets approved by the 1995 legislature.**

Table 1
Air National Guard
Performance-Based Budgeting Pilot
Performance Results

Targets			Results FY 94	FY95	FY96
PT 1	No mission cancels attributed to facilities or airfield management -number of mission cancels due to facilities/airfield management.		0	0	0
PT 2	All environmental and safety inspections, assistance visits and audits rated satisfactory or higher. -number less than satisfactory		0	0	0
PT-3a	Unit repair and maintenance costs to be 1.5% of construction cost.		1.3%	1.1%	1.5%
			$311,577	$315,129	$331,605
PT-3b	Energy conservation programs in place to insure utility cost not to exceed design data criteria and facility energy budget.	Estimated		$309,401	$327,473
		Actual	294,358	$291,128	$323,913
PT-3c	Total state share of FOMA not to exceed .65% of construction cost of facilities.		0.61%	0.54%	0.47%
			$144,133	$149,245	$156,087
PT-4	Contract services not to exceed 25% of repair and maintenance budget.		17.3%	9.9%	7.0%
			$53,866	$31,308	$23,290

The Air Guard program provides a good model of a how performance measures can be used to both improve performance levels and also as a tool for management and policymakers to evaluate a program's performance. The measures which were developed for the facilities management function were relevant, specific, and measureable. At the same time, performance-based budgeting necessitates tying performance to budgetary data. The Air Guard does not relate its budget request to the goals, or indicate what impact changes in the appropriation would have on their ability to meet those goals.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

6701 B
Department of Military Affairs
Air National Guard Program

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	13,830	17,271
02		Inflation/Deflation	16,112	18,865
03		Fixed Costs	14,465	14,470
		Total Statewide Adjustments	$44,407	$50,606
Significant Present Law Adjustments				
04	79281	Annualize Utilities	29,818	29,818
05	79282	Fire Fighter Uniform Replacement	5,263	5,263
06	91131	Utilities-Comm/Security Bldg	7,718	13,230
07	91133	Maintenance Contracts Air Gd	53,700	53,700
		Total Significant PL Adjustments	$96,499	$102,011
Other Base Adjustments			($9,495)	($9,495)
		Grand Total Present Law Adjustments	$131,411	$143,122

4) Annualize Utilities - Two new buildings at the Montana Air Guard facility in Great Falls were completed in fiscal 1996, the medical training/dinning building in January and the fuel dock building in February. The utilities for the two new buildings are reflected in the base in relation to the time they were occupied. A third building, the munitions maintenance building was completed in September, 1996. Utilities for the three buildings need to be annualized. An additional $29,818 is recommended for fiscal 1998 and fiscal 1999.

LFD Comment **- The fiscal 1996 base expenditure for utilities (electricity, gas, water/sewer) for the three Air Guard buildings noted above was $309,731. The annualized cost in each year of the 1999 biennium is $339,549, reflecting a present law adjustment of $29,818. The funding split is 75 percent federal and 25 percent general fund.**

5) Fire Fighter Uniform Replacement - The current labor contract with the fire fighters calls for $300 for uniform replacement per year, per employee. There are 24 fire fighters resulting in a total cost of $7,200 per year. This is an increase of $5,263 over fiscal 1996 actual expenditures of $1,937.

6) Utilities - Communications/Security Building - The new communications/security police building is scheduled to be completed in December, 1997, at the Air Guard Fighter Wing in Great Falls. There is $7,718 in fiscal 1998 and $13,230 in fiscal 1999 recommended for utilities for the facility.

LFD Comment **- The funding split is 75 percent federal and 25 percent general fund.**

7) Maintenance Contracts - Air Guard - It is recommended that the Air Guard contract for the following maintenance services for the facilities in Great Falls: grounds maintenance for $12,000 per year; heating, ventilation, and air conditioning at $18,000 annually; and fire detection-alarm and security systems for $22,700 per year.

LFD Comment **- 1) There is a $1,000 discrepancy between the present law adjustment noted in the table for maintenance contracts, at $53,700 per fiscal year, and the total of the three contract amounts detailed above, which amounts to $52,700. 2) There is no base year expenditure for these services since the Air Guard had been utilizing the capabilities of traditional guard personnel to perform a portion of these duties. As such, the executive's request may be more accurately characterized as a new proposal.**

Other Base Adjustments - In fiscal 1996 there was $9,495 spent for equipment; no replacement equipment was recommended for the 1999 biennium.

6701 B

Department of Military Affairs **Air National Guard Program**

Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Maintenance Positions - Air Guard	1.50	9,896	29,687	39,583	2.00	13,195	39,584	52,778
Total For New Proposals	1.50	$9,896	$29,687	$39,583	2.00	$13,195	$39,584	$52,778

Executive New Proposals

1) Maintenance Positions Air Guard - Two maintenance positions, one electrician and one structural maintenance specialist, to assist in the maintenance of both an aging and growing physical plant, are recommended.

LFD Comment **- The 2.0 FTE maintenance positions being requested by the executive are to be funded 75 percent federal funds and 25 percent general fund. The general fund portion totals $23,091 in the 1999 biennium.**

6701 21
Department of Military Affairs — **Disaster and Emergency Services**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	19.00	0.00	1.50	20.50	0.00	2.00	21.00	20.50
Personal Services	659,832	47,194	46,090	753,116	48,186	61,454	769,472	1,522,588
Operating Expenses	143,618	49,335	23,892	216,845	33,950	23,892	201,460	418,305
Equipment	22,600	(3,700)	0	18,900	(3,700)	0	18,900	37,800
Grants	706,667	(63,893)	0	642,774	(63,893)	0	642,774	1,285,548
Total Costs	$1,532,717	$28,936	$69,982	$1,631,635	$14,543	$85,346	$1,632,606	$3,264,241
General Fund	224,971	28,456	12,523	265,950	24,757	16,364	266,092	532,041
State/Other Special	2,874	2,126	0	5,000	2,126	0	5,000	10,000
Federal Special	1,304,872	(1,646)	57,460	1,360,686	(12,340)	68,983	1,361,515	2,722,200
Total Funds	$1,532,717	$28,936	$69,982	$1,631,635	$14,543	$85,346	$1,632,606	$3,264,241

Program Description

The Disaster and Emergency Services Division: 1) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, mitigation, response, and recovery plans; 2) provides technical support for civil defense shelters and exercises, and radiological defense and monitoring; and 3) receives, records, and disburses federal funds to eligible political subdivisions. Federal reimbursement programs include, but are not limited to: emergency management assistance, emergency operation center construction and furnishing, communication and warning equipment, supporting materials, and disaster recovery. Political subdivisions must provide matching funds for all federal reimbursement programs except disaster recovery. The division is responsible for proactive planning activities, responding quickly and effectively to disasters and emergencies, being a source of information and 24-hour contact point, and coordinating state assistance to local governments.

Funding

The Disaster Coordination Response Program is supported with general fund, state special revenue, and federal funds. The disaster coordination function is 50 percent general fund and 50 percent federal funds, while all other functions except workshops and conferences are federally funded. State special revenue is fee revenue from persons who attend division-sponsored workshops and conferences, and is used to support those functions.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the

6701 21
Department of Military Affairs — Present Law Adjustments/Issues
Disaster and Emergency Services

		Present Law Description	Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	43,910	44,902
02		Inflation/Deflation	(1,118)	(1,556)
03		Fixed Costs	34,646	19,699
		Total Statewide Adjustments	$77,438	$63,045
Significant Present Law Adjustments				
04	91212	Des Leased Vehicles	8,026	8,026
05	91213	Des Equipment - Replacement	(3,700)	(3,700)
06	91214	Des Overtime Emergencies	3,284	3,284
07	91215	Des - Lan Administration Contract	7,215	7,215
08	91216	Des Training Conference	2,126	2,126
		Total Significant PL Adjustments	$16,951	$16,951
Other Base Adjustments			($65,453)	($65,453)
		Grand Total Present Law Adjustments	$28,936	$14,543

executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Leased Vehicles -New - The executive recommends that four sedans be obtained for this program through a State Motor Pool lease at a budgeted cost of $11,781 in fiscal 1998 and $11,220 in fiscal 1999. The vehicles will be based in Missoula, Conrad, Livingston, and Miles City for the Montana Disaster and Emergency Services Division. The leasing costs would be offset in the 1999 biennium by a reduction of $9,187 in each year for personal car and car rental expenses. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

***LFD Comment* - A discussion of the State Motor Pool leasing program can be found in the Proprietary Rate Setting & State Fund Section.**

5) DES Equipment - Replacement - The replacement equipment totals $18,900 in both fiscal 1998 and fiscal 1999. This is a net reduction of $3,700 per year from the base. The agency plans to replace computers and update division software.

***LFD Comment* - This request to replace 6 computers and associated software is to be funded with 75 percent federal funds and 25 percent general fund.**

6) DES Overtime - Emergencies - The duties of DES employees encompass responding to emergencies that are not declared by the Governor, such as fires, under the direction of the Department of Natural Resources and Conservation (DNRC). In these situations, the employees are on the DES payroll, but work under the fire manager. The employee salaries are with DES, but the overtime is billed through DNRC from the fire budget. There is $10,000 recommended each year of the biennium for overtime, which is an increase of $3,284 over base. This would result in all personal services costs being charged against the DES budget and eliminate the agency's concerns about liability and workers' compensation for the impacted employees.

7) DES - LAN Administration Contract - The Department of Military Affairs has a contract with the Department of Administration, Information Services Division, to provide LAN administration at a total cost of $15,330 per year. The DES share of the contract is $7,215 each year of the biennium.

***LFD Comment* - Funding is 50 percent federal and 50 percent general fund.**

8) DES Training Contract - DES provides an annual conference for state, local, federal, and non-profit emergency personnel. A state special revenue account has been established for the collection and expending of funds for the conference. Actual expenditures in fiscal 1996 were $2,874. The executive is recommending an increase in spending authority each year of $2,126 which would give DES total authority of $5,000.

***LFD Comment* - Total requested spending authority for the DES annual training conference is $5,000 annually, or $10,000 for the 1999 biennium.**

Other Base Adjustments - DES is responsible for the distribution of FEMA and state funds to counties, school districts, state agencies, and Native American reservations for planning and mitigation in the area of hazardous materials, earthquakes, and floods. Actual disbursements in fiscal 1996 amounted to $706,667. Projections for the 1999 biennium are approximately $64,000 lower per year.

6701 21
Department of Military Affairs **Disaster and Emergency Services**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Des District Representative	0.75	12,523	12,523	25,045	1.00	16,364	16,364	32,727
02 Des Hazard Mitigation	0.75		44,937	44,937	1.00		52,619	52,619
Total For New Proposals	1.50	$12,523	$57,460	$69,982	2.00	$16,364	$68,983	$85,346

Executive New Proposals

1) DES District Representative - Currently the division has four field representatives covering 14 to 16 counties each. This recommendation will add a fifth district representative. The district representatives assist local governments with disaster and emergency planning, training, exercises, and advise them during real emergencies. The current staffing level is unable to keep up with the demand for pre-emergency assistance which results in the DES community being less able to respond during emergencies. Funding is 50 percent general fund and 50 percent federal funds.

2) DES Hazard Mitigation Program - This recommendation is to fund one position through the state Hazard Mitigation Program. The position would develop and maintain a systematic program to identify hazards, monitor changes in hazard vulnerability, and develop and implement measures for reducing hazard vulnerability. Goals of the program would be: 1) develop and maintain an interagency Hazard Mitigation Team; 2) identify areas of significant hazards, e.g., flooding or earthquakes; 3) visit disaster sites and evaluate impacts; 4) review existing programs, legislation, land use regulations, construction standards, and other hazard mitigation measures; review existing warning and evacuation plans; 5) identify opportunities to mitigate hazards; 6) recommend appropriate hazard mitigation measures; and 7) coordinate action to implement mitigation recommendations. Funding would be 75 percent federal and 25 percent state funds, with the state funds being soft match, which is identifying state funding in other state agencies that would be appropriate to utilize as identifiable hazard mitigation.

6701 31
Department of Military Affairs — **Veterans Affairs Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	19.30	0.00	0.00	19.30	0.00	0.00	19.30	19.30
Personal Services	509,503	52,073	0	561,576	53,434	0	562,937	1,124,513
Operating Expenses	83,100	36,880	0	119,980	30,484	0	113,584	233,564
Equipment	11,387	1,513	0	12,900	1,513	0	12,900	25,800
Debt Service	5,899	(5,899)	0	0	(5,899)	0	0	0
Total Costs	$609,889	$84,567	$0	$694,456	$79,532	$0	$689,421	$1,383,877
General Fund	548,213	72,170	0	620,383	67,125	0	615,338	1,235,721
State/Other Special	61,676	12,397	0	74,073	12,407	0	74,083	148,156
Total Funds	$609,889	$84,567	$0	$694,456	$79,532	$0	$689,421	$1,383,877

Program Description

The Veterans Affairs Division assists discharged veterans and their families, cooperates with state and federal agencies, promotes the general welfare of veterans, and provides information on veterans' benefits. The program also administers the veterans' cemetery located at Fort Harrison in Helena. The Board of Veterans' Affairs is administratively attached to the Department of Military Affairs.

The Veterans Affairs Program operates under a state mandate.

Funding

The Veterans Affairs Program is funded with general fund and state special revenue funds from donations, veteran license plate fees, and cemetery plot allowances. The general fund provides approximately 90 percent of the program's funding in the 1999 biennium. In fiscal 1996, the largest portion of state special revenue funding was generated by veterans license plate fee revenues.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) VA Cemetery - The Veterans Affairs Division has two ongoing contracts, an engineering services contract for the cemetery at $3,000 a year and a grave digging services

6701 31
Department of Military Affairs — Present Law Adjustments/Issues
Veterans Affairs Program

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	52,073	53,434
02		Inflation/Deflation	209	(65)
03		Fixed Costs	16,510	9,105
		Total Statewide Adjustments	$68,792	$62,474
Significant Present Law Adjustments				
04	91031	Va Cemetery	19,125	19,125
05	91312	Veterans Affairs Leased Cars	(90)	(625)
06	91314	Va Equipment - Replacement	2,076	3,894
		Total Significant PL Adjustments	$21,111	$22,394
Other Base Adjustments			($5,336)	($5,336)
		Grand Total Present Law Adjustments	$84,567	$79,532

contract also for $3,000 per year. The amount of $6,000 is being recommended each year of the biennium. This is $4,125 over the fiscal 1996 base expenditures of $1,875. In addition $15,000 of authority is being recommended each year of the biennium to support special cemetery projects should funds become available. There is $10,000 projected to come from donations and $5,000 from plot allowance revenues.

LFD Comment **- The two cemetery contracts noted above represent a 220 percent increase in professional services costs. Cemetery expenditures are funded through state special revenues, including veterans' license plate fees.**

5) Leased Vehicles New - The executive recommends that four sedans be obtained for this program through a State Motor Pool lease at a budgeted cost of $11,235 in fiscal 1998 and $10,700 in fiscal 1999. The vehicles will be based in Bozeman, Great Falls, Kalispell, and Miles City for the Montana Veterans Affairs Division. The operating expenses contain a reduction of $11,325 in each year of the biennium for personal car mileage and car rental. Refer to the Department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

6) VA Equipment - Replacement - The recommended replacement equipment totals $13,463 in fiscal 1998 and $15,281 in fiscal 1999. This is a net increase of $2,076 in fiscal 1998 and $3,894 in fiscal 1999 from the base. The agency wants to replace computers, update software, and replace two copiers.

LFD Comment **- This equipment replacement request is funded with 100 percent general fund. The largest portion of the increase involves the purchase/replacement of a total of 6 computers in the 1999 biennium at a cost of $18,000.**

Other Base Adjustments - Other recommended adjustments include a maintenance contract for a copier in the Kalispell office and the elimination of debt service from the operating budget.

EDUCATION

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

Office of Public Instruction

Board of Public Education

School for the Deaf and Blind

Vocational Education Council

Commissioner of Higher Education

Community Colleges

Colleges of Technology

State Library Commission

Montana University System (MUS)

Agricultural Experiment Station

Cooperative Extension Service

Forestry and Conservation Experiment Station

Bureau of Mines

Fire Services Training School

Montana Arts Council

Montana Historical Society

----------Committee Members----------

House

Representative Royal Johnson (Chair)

Representative Don Holland

Representative Ray Peck

Senate

Senator Daryl Toews (Vice-Chair)

Senator Greg Jergeson

Senator Ken Miller

----------Fiscal Division Staff----------

Bob Tallerico
Sandy Whitney

----------OBPP Representatives----------

Amy Carlson
Erik Hanson
Curt Nichols

3501 00

Agency Proposed Budget

Office of Public Instruction

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	115.68	(8.00)	7.75	115.43	(8.00)	8.00	115.68	115.43
Personal Services	4,238,835	20,930	288,337	4,548,102	25,879	296,544	4,561,258	9,109,360
Operating Expenses	3,201,480	1,380,117	1,434,592	6,016,189	1,379,739	1,351,402	5,932,621	11,948,810
Equipment	110,673	(18,515)	121,500	213,658	(18,515)	67,500	159,658	373,316
Local Assistance	454,515,167	(1,020,956)	500,000	453,994,211	9,816,044	15,616,000	479,947,211	933,941,422
Grants	61,465,444	4,844,208	2,705,000	69,014,652	4,844,208	3,995,000	70,304,652	139,319,304
Transfers	611,411	(611,411)	0	0	(611,411)	0	0	0
Total Costs	$524,143,010	$4,594,373	$5,049,429	$533,786,812	$15,435,944	$21,326,446	$560,905,400	$1,094,692,212
General Fund	459,224,542	(893,646)	303,188	458,634,084	9,945,265	16,230,305	485,400,112	944,034,196
State/Other Special	1,298,150	89,189	2,500,000	3,887,339	87,365	3,000,000	4,385,515	8,272,854
Federal Special	63,620,318	5,398,831	2,246,241	71,265,390	5,403,313	2,096,141	71,119,772	142,385,162
Total Funds	$524,143,010	$4,594,373	$5,049,429	$533,786,812	$15,435,944	$21,326,446	$560,905,400	$1,094,692,212

Mission Statement

To advocate, communicate, educate, and be accountable to those we serve.

Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section I, of the Montana Constitution. 20-3-106, MCA, states that the Superintendent "...has the general supervision of the public schools and districts of the state." 20-7-301, MCA, names the Superintendent as "the governing agent and executive officer" for vocational education in Montana. The Office of Public Instruction (OPI) provides services to Montana school-age children and to teachers in more than 500 state school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff administers a number of federally funded programs and provides a variety of information services.

3501 00
Office of Public Instruction

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
				Biennium Budget Comparison				
FTE	107.68	7.75	115.43	107.68	8.00	115.68	115.68	115.43
Personal Services	4,259,765	288,337	4,548,102	4,264,714	296,544	4,561,258	7,980,831	9,109,360
Operating Expenses	4,581,597	1,434,592	6,016,189	4,581,219	1,351,402	5,932,621	7,502,602	11,948,810
Equipment	92,158	121,500	213,658	92,158	67,500	159,658	199,975	373,316
Local Assistance	453,494,211	500,000	453,994,211	464,331,211	15,616,000	479,947,211	918,529,954	933,941,422
Grants	66,309,652	2,705,000	69,014,652	66,309,652	3,995,000	70,304,652	125,400,110	139,319,304
Transfers	0	0	0	0	0	0	1,185,699	0
Total Costs	$528,737,383	$5,049,429	$533,786,812	$539,578,954	$21,326,446	$560,905,400	$1,060,799,171	$1,094,692,212
General Fund	458,330,896	303,188	458,634,084	469,169,807	16,230,305	485,400,112	928,889,184	944,034,196
State/Other Special	1,387,339	2,500,000	3,887,339	1,385,515	3,000,000	4,385,515	1,762,084	8,272,854
Federal Special	69,019,149	2,246,241	71,265,390	69,023,631	2,096,141	71,119,772	130,147,903	142,385,162
Total Funds	$528,737,383	$5,049,429	$533,786,812	$539,578,954	$21,326,446	$560,905,400	$1,060,799,171	$1,094,692,212

Agency Issue

Teachers' Certification - The Executive Budget for OPI includes approximately $192,000 of general fund each year to fund the administration of the teachers' certification program (20-4-103, MCA). The responsibilities of this program include the licensure of teachers to teach in Montana. The duties include: 1)evaluation of candidates; 2) review of teacher education programs; 3) investigation of teacher malfeasance; and 4) enforcement of professional standards.

Statute sets teachers' license rates at $6 per year. Of this amount, $3 is used to fund the Certification Standards and Practices Advisory Council, which is administratively attached to the Board of Public Education. The remaining $3 is appropriated to the advisory council for use on special projects and research studies. Each of the above $3 fees is deposited into state special revenue accounts. None of the certification fees collected are appropriated to OPI to support the teachers' certification duties of that office.

Based upon 1996 revenues received by the advisory council account and the research and special projects account, approximately 27,400 teachers paid certification fees.

Options:

1) increase the certification fees by $7 per year, which would raise $191,000, to offset the general fund appropriation to support OPI's teacher certification function;

2) raise the certification fees by $3.50 per year and use the $95,000 to support one-half of the certification costs; and

3) phase in a dollar amount increase in certification fees until an amount is received to fully replace the general fund appropriation (i.e., $2.50 per year over a three-year period). These revenues would be received as user fees and could be maintained in a state special revenue account restricted for OPI's

use to support teachers' certification.

Legislative Reductions to Present Law - The 1995 legislature reduced the present law budget of OPI's Administration Program by $1 million over the 1997 biennium ($600,000 general fund and $400,000 federal funds). Tables 1 and 2 reconcile the actions OPI has taken to attain this reduction. As shown in Table 1, OPI reduced general fund base expenditures by reducing personal services costs by $353,383 and eliminating 2 FTE. Administrative payments to the indirect pool were reduced by $59,906 and a reduction in operational costs of $187,711 is in the 1999 biennium budget request.

OPI has reduced federal funds base expenditures by holding expenditures below authorized appropriations for the grants listed in Table 2. The total reduction for the 1997 biennium was $587,699.

Table 1
OPI Actions to Reduce General Fund Present Law Budget by $600,000

General Fund Reductions	1999 Biennium Budget Reductions
Exempt Staff Salary Adjustments	
Personnel Officer	$70,157
Equal Opportunity Administrator	71,283
Montana Schools Editor	17,032
Eliminated General Fund FTE	
Department Administrator 1 FTE	$125,442
Executive Secretary 1 FTE	68,469
Operational Savings	
Reduction to Indirect Draws	$59,906
Continued Operational Savings	187,711
Total General Fund Reductions	$600,000

Table 2
OPI Actions to Reduce Federal Funds Present Law Budget

Federal Fund Reduction	Fiscal 1996-97 Authorized	Fiscal 1996-97 Expenditures	Fiscal 1996-97 Bud. Reductions
Federal Grants			
Title IV	$443,998	$221,999	$221,999
National Diffusion Network	226,184	91,820	134,364
Law Related Education	316,052	84,716	231,336
Total	$986,234	$398,535	$587,699

3501 06
Office of Public Instruction — **OPI Administration**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	115.68	(8.00)	7.75	115.43	(8.00)	8.00	115.68	115.43
Personal Services	4,238,835	20,930	288,337	4,548,102	25,879	296,544	4,561,258	9,109,360
Operating Expenses	3,201,480	1,380,117	1,434,592	6,016,189	1,379,739	1,351,402	5,932,621	11,948,810
Equipment	110,673	(18,515)	121,500	213,658	(18,515)	67,500	159,658	373,316
Local Assistance	12,738	5,000	0	17,738	5,000	0	17,738	35,476
Grants	3,500	(3,500)	0	0	(3,500)	0	0	0
Transfers	350,000	(350,000)	0	0	(350,000)	0	0	0
Total Costs	$7,917,226	$1,034,032	$1,844,429	$10,795,687	$1,038,603	$1,715,446	$10,671,275	$21,466,962
General Fund	3,478,926	325,497	798,188	4,602,611	327,408	819,305	4,625,639	9,228,250
State/Other Special	336,263	51,076	0	387,339	49,252	0	385,515	772,854
Federal Special	4,102,037	657,460	1,046,241	5,805,738	661,942	896,141	5,660,120	11,465,858
Total Funds	$7,917,226	$1,034,032	$1,844,429	$10,795,687	$1,038,603	$1,715,446	$10,671,275	$21,466,962

Program Description

The Administration program provides leadership and coordination of services to a variety of school and public groups. The staff provides assistance to the Superintendent of Public Instruction in performing prescribed duties. The program: 1) supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board; 2) is responsible for the distribution and accounting of state and federal funds provided to school districts; 3) provides operational support to OPI; and 4) provides assistance and information to school districts. The program administers all federal grants received by OPI, including the budgets for: 1) curriculum assistance; 2) special education; 3) Title I administration; 4) secondary vocational education administration; 5) Title IV administration; and 6) other educational services including driver's education, school food services, and audiology. The Superintendent of Public Instruction is an elected official provided for in Article VI, Section 1, of the Montana Constitution. 20-3-106, MCA, states that the Superintendent "has the general supervision of the public schools and districts of the state." 20-7-301, MCA, names the Superintendent as "the governing agent and executive officer" for kindergarten through 12th grade and secondary vocational education in Montana. Most activities of the office operate under various state and federal mandates. Please refer to appendix for specific legal references.

Funding

The Office of Public Instruction's Administration Program is funded with general fund, state special revenue, and federal grants. With the passage of HB 576 during the 1997 legislature, the proprietary funds used to fund centralized services were taken off budget. General fund supports the Superintendent's Office, the administration of centralized services, school district accounting, teacher certification, and education technology. A combination of general fund and federal special revenue provide the funding for vocational and adult services, accreditation and education accountability, special education, and education opportunity and equity. A combination of all three funding sources support school food service, academic and professional services, and health enhancement and safety.

3501 06
Office of Public Instruction **OPI Administration**
Performance Based Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	0.00	7.75	7.75	0.00	8.00	8.00	7.75
Performance Based	0	0	798,188	798,188	0	819,305	819,305	1,617,493
Total Costs	$0	$0	$798,188	$798,188	$0	$819,305	$819,305	$1,617,493
General Fund	0	0	798,188	798,188	0	819,305	819,305	1,617,493
Total Funds	$0	$0	$798,188	$798,188	$0	$819,305	$819,305	$1,617,493

Performance-Based Budget

The Office of Public Instruction's Administration Program is one of 16 state programs participating in a performance-based budgeting pilot project. OPI's proposal is entitled "Improving Montana Schools," and is directed toward four goals: 1) improved teaching and learning; 2) increased public school accountability; 3) enhanced educational technology; and 4) improved access to data and information concerning K-12 education. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the administration program is contingent upon funds being used to attempt to achieve program performance targets as outlined in the Executive Budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

The proposed performance targets and measures are discussed below.

Goals, Objectives and Performance Measures:

Goal 1: Promote challenging academic standards and effective delivery systems for teaching and learning for K-12 education to meet the challenges of today and tomorrow.

Objective 1: By October 1, 1998, with assistance and advice from educators, parents, and the public, the Office of Public Instruction will review the 1989 Program Area Standards and will recommend revisions to the Model Learner Goals associated with the Montana Accreditation Standards. Model learner goals to integrate instructional technology across the curriculum will be recommended.

Objective 2: By July 1, 1999, OPI will coordinate technical assistance to support the local adaptation and implementation of goals for curriculum content and student performance. OPI will also coordinate technical assistance to meet the needs of teachers and administrators for training and sustained professional development.

Objective 3: By January 1999, an increased number of Montana schools will link their educational reform efforts with workforce development and economic development by engaging community members, business, labor, parents and schools in designing and implementing a comprehensive, integrated system of education and workforce preparation that reflects local needs and is available to all students.

Performance Measures:

1) Revised learner goals are integrated into locally-developed curriculum models in all program areas over the four years, fiscal 1998 through fiscal 2001.

2) Local assessments are developed to measure student performance and district progress toward achieving model learner goals. Assessment data will assist in the establishment of indicators and benchmarks for the Montana Education Profile.

3) Effectiveness will be measured by the number of schools demonstrating an increased number of students who are proficient in core academic subjects.

4) The number of sustained, intensive professional development opportunities for educators is increased by 30 percent by fiscal 2001. Baseline data will be collected for the 1997-1998 school year.

5) By fiscal 2001, 30 percent of the school districts in Montana will have adopted state-of-the-art models for the improvement of curriculum, assessment, instruction, and integrated technology. Baseline data will be collected for the 1997-98 school year.

6) The number of schools who integrate school-to-work opportunities into existing educational reform initiatives and existing vocational education programs is increased by 30 percent by fiscal 2001. Baseline data will be collected in the 1997-1998 school year.

7) The number of students with significant involvement in school-to-work programs is increased. Baseline data will be collected in the 1997-1998 school year.

8) OPI will increase the availability of model curricula and training in applied academics and work-based learning so that schools can use these models to improve their programs and increase workplace experiences linked to the classroom.

9) The number of students who have opportunities to integrate academic and occupational learning through school-to-work, applied learning opportunities, vocational education, or work-based learning will increase by 30 percent by fiscal 2001. Baseline data will be collected in the 1997-1998 school year.

Goal 2: Provide the public with a means of assessing the quality and achievements of the K-12 education system in Montana.

Objective 1: By January 1999, the Office of Public Instruction will develop and disseminate a Montana Education Profile to the Montana public. The profile will be developed with assistance and advice from educators, parents, and the public and will contain indicators and measures of the effectiveness of Montana's K-12 system in the areas of students, staff, academic achievement, finance, and educational programs.

Objective 2: During fiscal years 1999 and 2000, the Office of Public Instruction will provide technical assistance to districts and communities to assist with the development of local profiles of school and program effectiveness.

Performance Measures:

1) The Montana Educational Profile is completed by January 1999. The profile reports the status and achievements of schools or districts in peer-groupings and provides a state and national context for comparison.

2) By July 2000, 20 percent of Montana's 475 school districts will voluntarily participate in a pilot project to develop, publish, and distribute local school profiles. All districts will complete, publish and distribute local profiles by July 2001.

3) Survey of state and local policy-makers, educators and community members indicates that the Education Profile is accessible, meaningful and valuable as a tool for school improvement at the local level.

4) Survey indicates that the public is able to identify and draw conclusions from the indicators of educational quality, and perceives that it can be actively engaged in the school improvement process.

LFD Issue - **The executive is requesting 7.75 FTE in fiscal 1998 and 8.0 FTE in fiscal 1999 and $1,618,093 for the 1999 biennium. The following issues are raised with this request:**

1) The goals and objectives of the budget are adequately described. However, the description does not tie the performance measures to the funding listed in the New Proposals table. A budget amount is not associated with the objective or the performance measure. Without a cost per measurement and/or objective, the legislature cannot determine how changes in funding will impact the achievement of the goals. In addition, the legislature, because this is an entirely new function, has no basis upon which to determine whether the amounts requested are reasonable to achieve these goals.

2) Some performance measures are quality measures and not quantifiable, meaning the ability to measure performance does not exist.

3) Performance measures go beyond the 1999 biennium, yet the executive's funding covers only the 1999 biennium. One performance measure reaches only 30 percent fulfillment by fiscal 2001. The legislature may wish to request information on an estimated completion period, as well as an estimate of costs beyond the 1999 biennium.

4) The executive has not identified the FTE as to position grade or title. Furthermore, the need for additional FTE has not been defined.

3501 06
Office of Public Instruction
OPI Administration

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	20,930	25,879
02		Inflation/Deflation	2,060	1,067
03		Fixed Costs	(44,823)	(44,823)
		Total Statewide Adjustments	($21,833)	($17,877)
Significant Present Law Adjustments				
04	91001	Equipment	92,158	92,158
05	91002	Building Expansion	184,183	178,333
06	91006	Maefairs System Maintenance	34,651	34,651
07	91007	Aids Grants And Contacts	53,319	53,319
08	91008	Motorcycle Safety Base Adjustment	18,199	18,199
09	91009	Audiology Contracts	16,849	16,849
10	91010	Federal Special Ed Contracts	176,895	176,895
11	91011	Federal Funding Increases	482,652	482,652
		Total Significant PL Adjustments	$1,058,906	$1,053,056
Other Base Adjustments			($3,041)	$3,424
		Grand Total Present Law Adjustments	$1,034,032	$1,038,603

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This adjustment reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 5 percent vacancy savings rate was applied in the 1997 biennium.

2) Inflation/Deflation - This is primarily due to increased costs of postage and photocopy pool services.

3) Fixed Costs - The fiscal 1996 audit expenditure of $43,001 is eliminated as the audit will be paid from the indirect cost pool proprietary account in the 1999 biennium.

LFD Comment **- The proprietary account is not appropriated by the legislature.**

4) Equipment - The Information Technology Advisory Council (ITAC) has recommended a minimum level of technology for desktop workstations. Currently 52 of 125 workstations are below the level of the minimum recommended level of technology and only 7 machines meet the recommended level of technology. The office also operated three servers. The amount budgeted is set at the level approved by the legislature for each of the past two years. OPI estimates $2,775 to upgrade each workstation and $30,000 for each network server.

LFD Issue **- It appears to have been the intent to request $184,316 in equipment expenditures over the biennium, which is the amount appropriated in the 1997 biennium. However, the effect of the adjustment is to budget $388,386 over the biennium, as expenditures of $101,995 were already in the base to which the addition was made. If it is the legislature's intent to appropriate $184,316 over the biennium, the adjustment would be a negative $9,837 each year.**

5) Building Expansion - A second floor addition is being added to OPI space at 1227 11th Avenue by the building's owner to accommodate OPI staff who are currently housed in the Capitol building and other rented space. The Capitol renovation plans call for OPI to vacate current space occupied in the Capitol. This amount includes cost of lease, utilities, janitorial services, taxes, elevator and air conditioning system maintenance and indirect charges relating to the new space. Savings from vacating the Capitol are shown in the agencies indirect cost pool. As this budget is being completed the Department of Administration, OPI and the building owner are discussing options which may result in revision of this proposal. Funding is general fund.

LFD Issue **- At the time the above narrative was written, a contract with the builder had not been completed. According to OPI personnel, rental costs associated with the new spaces will cause overall rent to increase by $266,286 over the biennium. The projected rental costs for the Capitol would have been $36,679 in fiscal 1998 and $38,053 in fiscal 1999. The savings referred to in the executive's narrative is the costs associated with OPI occupying the Capitol. The rent for the additional 7,000 square feet addition, real estate taxes, fire and extended insurance coverage, elevator, heating and air conditioning system, utilities, and utilities totals $341,018 over the biennium.**

6) MAEFAIRS System Maintenance - Anticipated costs of software system maintenance on Montana Automated Education and Financial Aid Information Reporting System (MAEFAIRS). The private contractor that developed MAEFAIRS has notified OPI they will no longer provide staff to support the system unless the software is upgraded to a Windows 95 environment. A software upgrade is not feasible at this time, so during the 1999 biennium OPI will contract with one of the information systems companies on term contract with the state for support of MAEFAIRS. Initially the new contractor will cost more than the previous contractor because of time needed to become familiar with the complexities of the system and its 500,000 lines of code. Costs for maintenance are anticipated to rise from $105,284 spent in fiscal 1996 to $135,000 each year in the 1999 biennium. Funding is general fund.

LFD Issue - The 1995 legislature approved a biennial appropriation of $160,000 general fund to continue system development and maintenance of the school district electronic reporting system (referred to as MAEFAIRS). Development of MAEFAIRS began with the implementation of HB 667 (passed by the 1993 legislature), which included a $400,000 appropriation to OPI for the 1995 biennium.

Of the approximate 500 school districts, 420 report through the MAEFAIRS system. The requested present law adjustment would not improve the system to support a Windows environment. The new contract would maintain the system at a status quo, functioning in a DOS environment. The $135,000 is not a quoted amount from a contractor, but an estimate by OPI's system personnel. OPI personnel stated an upgrade to an Oracle based system would most likely be requested during the 2001 legislative session.

7) AIDS Grants and Contracts - This amount includes $17,919 for indirect costs, contracts for teacher and administrator training, data collection and analysis, and workshops and $35,400 for educational materials, access to computerized data bases, preservice training for teachers, and assessment materials. Funded from federal funds.

8) Motorcycle Safety Base Adjustment - This amount provides for additional course materials, publications, and increased training contracts. Funded from fees for motorcycle registration.

9) Audiology Contracts - The anticipated increases are the costs of the statewide hearing conservation program. This allows an increase of 4 percent from fiscal 1996 contracts which totaled $341,599. Funded from general fund.

10) Federal Special Ed Contracts - Anticipated increases in special education contracts are for federal special hearings officers, interpreters, staff/teacher trainers, consultants, and related services. Funded from federal funds.

LFD Comment - The Executive Budget increases contracted services and indirect costs associated with special education. Fiscal 1996 expenditures for these two expenditure codes were $622,894. This present law adjustment represents an approximate 28 percent increase in both years of the biennium.

The relationship between federal special education funds and general fund that supports special education is that both funding sources support the education of children identified to receive a special education. The differences lie within the specific goals and rules contained in their mandates. Each fund must have its own appropriation authority and the expenditures must be accounted for independent of the other.

11) Federal Funding Increases - Anticipated increases in federal grants for various programs listed below. Congress has appropriated additional funds for these existing federal programs administered by the Office of Public Instruction. The additional funding will be used for pay plan increases, educational materials, supplies, travel, contracts, and other expenses associated with the operations of these programs.

Grant	Anticipated Annual Increase
IDEA Part B	$117,000
IDEA Part C	41,000
School Food SAE	100,000
Title II -Eisenhower Professional Development	57,449
Safe & Drug Free Schools	33,603
Migrant Even Start	133,600
Total	$482,652

LFD Comment - **Of these federal grants, $412,523 will be passed to the districts for operational services and $70,129 will be used for indirect administration.**

Other Base Adjustments - Transfers fall $350,000 and base indirect cost charges rise $494,000 as the funding of the proprietary fund cost pool is changed from a general fund transfer and full general fund payment for the audit to indirect charges at the federal rate with the audit included in the indirect pool. Additional indirect costs are associated with the above present law adjustments. The higher indirect cost charges, which are based on the negotiated federal rate, are anticipated to generate enough revenue to return $400,000 in the biennium to the general fund through the statewide indirect cost recovery. This represents a significant increase as no funds have been returned to the general fund in the current year.

LFD Comment - **In discussion with OPI personnel, the return of funds to the general fund depends on federal expenditures and total revenues received by the indirect cost pool. OPI personnel stated the $400,000 would be returned to the general fund provided that 1999 biennium revenues in the indirect cost pool account total at least $3,090,000. If actual revenues are less than $3,090,000, the amount returned to the general fund through statewide indirect charges is reduced by 50 cents for every $1 shortfall in revenue.**

According to executive personnel, in fiscal 1996 no funds were returned to the general fund as the agency did not pay its statewide indirect costs.

3501 06
Office of Public Instruction **OPI Administration**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Improving Schools - Pbb	7.75	798,188		798,188	8.00	819,305		819,305
02	Technology Literacy Challenge Grants			100,000	100,000			100,000	100,000
03	Idea Transition			650,000	650,000			500,000	500,000
04	Title I School Improvement			231,241	231,241			231,141	231,141
05	Migrant Education Sae			65,000	65,000			65,000	65,000
	Total For New Proposals	7.75	$798,188	$1,046,241	$1,844,429	8.00	$819,305	$896,141	$1,715,446

Executive New Proposals

LFD Comment - **The executive's narrative on Improving Schools is contained in the agency's Performance-Based Budget section.**

2) Technology Literacy Challenge Grants - ESEA Title III provides funding for the integration of instructional technology into classrooms and for the professional training of teachers in the use of technology to improve teaching and learning. This program consists of two parts, the administrative portion, $100,000 per year which is discussed here and the grant portion, $900,000 per year which is discussed in the distribution to schools program. The superintendent's office must develop and implement a competitive grant program for school districts and provide technical assistance and training to educators.

LFD Comment **- This is a fully federally-funded program with no state match requirement. Of the $100,000 requested, $14,530 is for indirect administrative costs and the remainder funds operational services.**

3) IDEA Transition - These are federal funds provided under the Individuals with Disabilities Education Act (IDEA). The requested budget authority for fiscal year 1998 is $650,000 in anticipation of $150,000 in additional carryover funds from the first federal fiscal year of the grant (the first year was approved as a budget amendment in the current biennium). Montana received notice of award of this competitive grant from the U.S. Department of Education on September 16, 1995. This program is fully federally funded with no requirements for state match. Existing staff of the OPI will provide management oversight for the grant necessary accounting of expenditures. Implementation of activities of the grant are conducted in coordination with the University System. The proposal's intention is to improve the quality and availability of high school special education services to youth with disabilities for preparation to enter post-school adult life with better competitive skills. The main areas of focus in the proposal are: 1) coordination of state-level interagency planning; 2) awarding mini-grants to local areas for the development of model programs which improve the quality of special education services to high school-aged youth with disabilities; 3) development of technical assistance and training centers capable of responding to requests for assistance from the field; and 4) policy development and support for lasting change at all levels of service, including preservice preparation of teachers and human services providers.

4) Title I School Improvement - These are federal funds for the implementation of a state system of school support. The school support system is required to provide assistance to schools engaged in school wide program planning and implementation, schools identified for improvement, and schools with greater than 75 percent poverty. The priorities for their use are (1) providing information and assistance to Title I school wide programs, (2) providing information and assistance to Title I schools with 75 percent or greater poverty, and (3) schools identified as in need of improvement. This program has been approved by budget amendment in the current biennium.

LFD Comment **- This is a fully federally-funded program with no state match requirement. Of the requested appropriation authority, approximately $34,000 per year is for indirect administrative costs and the remainder funds operational services.**

5) Migrant Education SAE - These are federal funds provided under Title I, Part C- Education of Migratory Children under PL 103-382 for the provision of state level duties, required functions, and services. The new law focuses on serving currently mobile children and Montana has a high number of those children compared with other states where migrant families have "settled out." In the past, urban areas in the east were likely to have significantly higher allocations than a large, rural state such as ours where agriculture is the primary economic base. The new law has remedied that situation by providing more funds to states who serve actively mobile families. As a result, OPI will be required to do more extensive record transfer, identification and recruitment, and interstate coordination. It is anticipated that an additional authority of $65,000 will be needed for state level administration.

LFD Comment **- This is a fully federally-funded program with no state match requirement. Of the appropriation request, $55,556 is budgeted to support operations and $9,444 for indirect administrative costs.**

3501 09
Office of Public Instruction — Distribution to Public Schools
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Local Assistance	454,502,429	(1,025,956)	500,000	453,976,473	9,811,044	15,616,000	479,929,473	933,905,946
Grants	61,461,944	4,847,708	2,705,000	69,014,652	4,847,708	3,995,000	70,304,652	139,319,304
Transfers	261,411	(261,411)	0	0	(261,411)	0	0	0
Total Costs	$516,225,784	$3,560,341	$3,205,000	$522,991,125	$14,397,341	$19,611,000	$550,234,125	$1,073,225,250
General Fund	455,745,616	(1,219,143)	(495,000)	454,031,473	9,617,857	15,411,000	480,774,473	934,805,946
State/Other Special	961,887	38,113	2,500,000	3,500,000	38,113	3,000,000	4,000,000	7,500,000
Federal Special	59,518,281	4,741,371	1,200,000	65,459,652	4,741,371	1,200,000	65,459,652	130,919,304
Total Funds	$516,225,784	$3,560,341	$3,205,000	$522,991,125	$14,397,341	$19,611,000	$550,234,125	$1,073,225,250

Program Description

The Distribution to Public Schools program is used by OPI to distribute various state and federal funds to local education agencies.

Funding

For a complete listing of appropriations by fund type included in the Distribution to Schools program, see Table 3.

Table 3
Distribution to Schools by Program

Budget Item	Base Budget 1996	PL Base Adjustments Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget 1998	PL Base Adjustments Fiscal 1999	New Proposals Fiscal 1999	Total Exec Budget 1999
General Fund Appropriation							
Direct State Aid	$270,451,926	$5,569,074	$0	$276,021,000	$3,009,074	$14,616,000	$288,077,000
GTB	118,025,346	2,473,654	0	120,499,000	8,347,654	0	126,373,000
GTB - Reappraisal Savings	0	(10,663,000)	0	(10,663,000)	(3,965,000)	0	(3,965,000)
Retirement GTB	18,395,272	1,374,728	0	19,770,000	2,099,728	0	20,495,000
Special Education - Medicaid	261,411	(261,411)	0	0	(261,411)	0	0
Special Education - Coop	4,106,266	(4,106,266)	0	0	(4,106,266)	0	0
Special Education - Out of State	724,917	(724,917)	0	0	(724,917)	0	0
Special Education	28,694,967	5,043,412	0	33,738,379	5,043,412	0	33,738,379
Transportation	10,159,858	140,142	0	10,300,000	240,142	0	10,400,000
Instate Treatment	1,041,628	(66,732)	0	974,896	(66,732)	0	974,896
School Facility Reimbursement	1,500,000	500,000	(2,000,000)	0	500,000	(2,000,000)	0
Timber Harvest	0	0	1,505,000	1,505,000	0	2,795,000	2,795,000
Secondary Vo Ed	650,089	(89)	0	650,000	(89)	0	650,000
Adult Basic Ed	249,800	200	0	250,000	200	0	250,000
Gifted & Talented	151,693	(1,693)	0	150,000	(1,693)	0	150,000
SIMMS	500,000	(500,000)	0	0	(500,000)	0	0
School Food	659,920	1,811	0	661,731	1,811	0	661,731
Other - Audit, TIFD	172,523	1,944	0	174,467	1,944	0	174,467
Total General Fund	$455,745,616	($1,219,143)	($495,000)	$454,031,473	$9,617,857	$15,411,000	$480,774,473
State Special Revenue							
Traffic Safety Distribution	$961,887	$38,113	$0	$1,000,000	38,113	$0	$1,000,000
School Facility Reimbursement (Coal Tax)	0	0	2,500,000	2,500,000	0	3,000,000	3,000,000
Total State Special Revenue	$961,887	$38,113	$2,500,000	$3,500,000	$38,113	$3,000,000	4,000,000
Federal Special Revenue							
Math/Science	$874,657	$0	$0	$874,657	$0	$0	$874,657
Safe & Drug Free Schools and Communities	1,525,279	338,519	0	1,863,798	338,519	0	1,863,798
Title I	26,395,274	2,621,997	0	29,017,271	2,621,997	0	29,017,271
Title I Migrant Education	729,907	0	300,000	1,029,907	0	300,000	1,029,907
Title VI	1,514,103	0	0	1,514,103	0	0	1,514,103
Adult Basic Education	811,433	261,472	0	1,072,905	261,472	0	1,072,905
IDEA	8,589,097	1,474,664	0	10,063,761	1,474,664	0	10,063,761
Carl Perkins	2,867,221	0	0	2,867,221	0	0	2,867,221
School Food	15,727,446	0	0	15,727,446	0	0	15,727,446
Technology Literacy Challenge	0	0	900,000	900,000	0	900,000	900,000
Misc School District Grants	483,864	44,719	0	528,583	44,719	0	528,583
Total Federal Special Revenue	$59,518,281	$4,741,371	$1,200,000	$65,459,652	$4,741,371	$1,200,000	$65,459,652
Total Distribution to Public Schools	$516,225,784	$3,560,341	$3,205,000	$522,991,125	$14,397,341	$19,611,000	$550,234,125

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

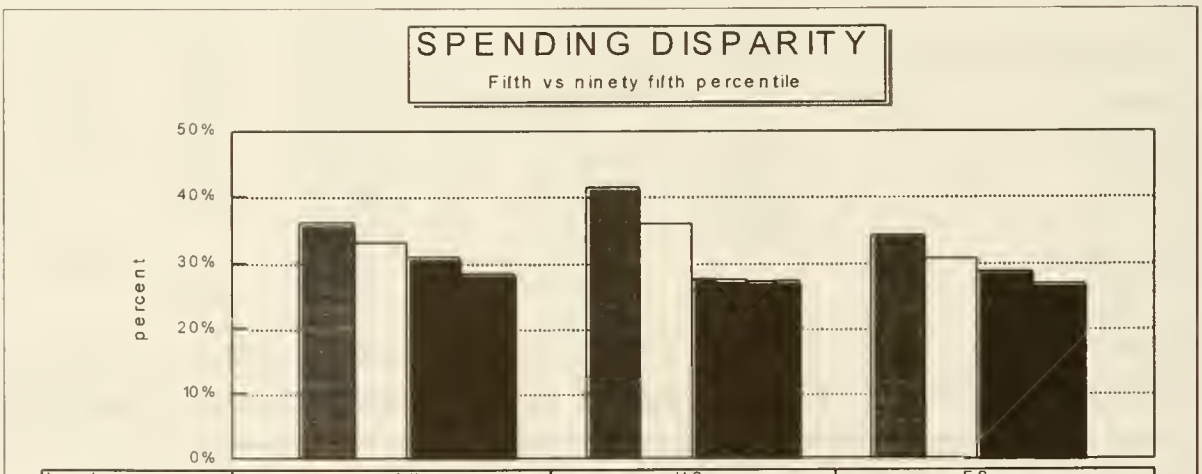
3501 09
Office of Public Instruction
Distribution to Public Schools

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	0	0
02		Inflation/Deflation	0	0
03		Fixed Costs	0	0
		Total Statewide Adjustments	$0	$0
Significant Present Law Adjustments				
04	91001	K-12	8,042,755	11,356,755
05	91002	Retirement GTB	1,374,728	2,099,728
06	91003	School Transportation	140,142	240,142
07	91004	School Facility Reimbursements	500,000	500,000
08	91005	Property Reappraisal Effects	(10,663,000)	(3,965,000)
09	91006	Federal Funding Increases	4,741,371	4,741,371
		Total Significant PL Adjustments	$4,135,996	$14,972,996
Other Base Adjustments			($575,655)	($575,655)
		Grand Total Present Law Adjustments	$3,560,341	$14,397,341

LFD Comment **- As this program consists entirely of grants, no statewide present law adjustments are recorded.**

4) K-12 BASE Aid - This amount provides for enrollment increases and the progression of low spending districts to the BASE 80 percent level. School enrollments are anticipated to increase over the fiscal 1996 level by 2,785 and 3,645 in fiscal 1998 and 1999 respectively. In addition 46 districts budgeting below the minimum level must increase their budgets to the minimum in fiscal 1998. The average budget increase for these districts will be 3.5 percent.

The expenditure disparity of school districts shows how well equalized expenditures are relative to each other. Disparity in school districts expenditures lies at the heart of the Lobel decision finding the school equalization system unconstitutional and is therefore the primary goal of school funding reform. It is generally regarded as constitutionally acceptable if the expenditure disparity is not more than 25 percent, that is the spending in the district at the 95th percentile is no more than 25 percent more than the spending in the district at the 5th percentile. The chart below indicates that the disparity has been moving toward the desired 25 percent level in the four years since enactment of the current school funding system. This progress is primarily the result of increased expenditures in previously low spending districts and freezing of expenditures in very high spending districts.



level	All	HS	ES
1994	36.0%	41.4%	33.9%
1995	32.8%	35.9%	30.4%
1996	30.6%	27.5%	28.5%
1997	28.1%	27.1%	26.5%

Fall 1996 enrollment reports initially indicate that enrollments may be lower than provided for in this adjustment. When the February enrollment reports are received we will review enrollments and make revisions as appropriate.

LFD Comment - **The present law adjustment is formula driven and its funding is mandated.**

5) Retirement GTB - As expenditures for school personnel salaries increase either through higher numbers of employees or higher salary levels retirement costs rise and state guaranteed tax base payments share in that increase.

LFD Comment - **Retirement guaranteed tax base is a formula driven expenditure and increases proportionally with the increase of employees and with salary increases. This increase is based upon average annual growth over the last three years.**

6) School Transportation - This amount represents the cost of increased bus miles and larger buses as more children are eligible riders.

LFD Comment - **School districts providing student transportation between home and schools in excess of three miles are entitled to a state statutory reimbursement based upon rate per mile, bus size, and occupancy in accordance with the payment schedules set forth in 20-10-140, MCA, and 20-10-145, MCA. This increase is based on the projected increase in enrollment.**

7) School Facility Reimbursements - This adjustment continues the fiscal 1997 level of reimbursements. Fiscal 1996 reimbursements were $1.5 million which increase to $2 million in fiscal 1997. See new proposal for proposed increase in these reimbursements and funding change.

LFD Comment - **The school facility reimbursement for fiscal 1996 and fiscal 1997 was funded with general fund. The new proposal recommends funding this appropriation with revenues diverted from the coal tax. Please refer to the LFD Issue in the New Proposal section of this program for a discussion.**

8) Property Reappraisal Effects - The cyclical reappraisal of residential real property is expected to result in a significant rise in value under current law. This increase in values will result in a reduction in guaranteed tax base costs to the state as the increased values lead to lower mill levies. The reduction is much less in fiscal 1999 as the statewide guarantee increases to reflect the higher values.

LFD Issue - **The executive proposes to increase permanently by 3.5 percent the per-district and per-ANB entitlements for K-12 education. The funding source proposed to pay for this increase is a temporary one-time reduction in the state's share of district general fund costs. The reduction in the state's payment of guaranteed tax base to districts is the result of reappraisal of class 4 property which is expected to increase property values by 43 percent statewide in fiscal 1998. Reappraisal will result in reduced state GTB costs of $10,663,000 in fiscal 1998 and $3,965,000 in fiscal 1999, after which GTB costs will return to what they would have been in the absence of reappraisal.**

In addition, the existence of the GTB savings will depend on the method by which the executive proposes to provide relief for property tax increases associated with reappraisal. The method by which property tax relief is to be accomplished has not been specified by the executive at the time of this publication. However, two methods are logical choices: 1) reduce the statewide mill levies; and 2) reduce the class 4 tax rate. If the executive reduces the statewide mill levies, the one-time GTB savings with which the executive proposes to fund the permanent increase in schedules will be realized. If the executive reduces the class 4 tax rate, any

GTB savings will disappear, and the permanent increase in K-12 entitlements will need to be funded from another source. For a further discussion, please see the "Overview" volume of the LFD Budget Analysis.

9) Federal Funding Increases - Anticipated increases in federal grants for various programs are listed below. IDEA Part B represents an increase in the entitlement amount paid to districts per eligible student. Adult Basic Education represents an increase in amounts paid to community based, adult education centers and to school districts that provide adult education services. Title I represents an increase in the entitlement amount per eligible student. Safe and Drug Free Schools represents an increase in the entitlement per student.

Grant	Anticipated Annual Increase
IDEA Part B	$1,474,664
Adult Basic Education	261,472
Title I	2,621,997
Safe & Drug Free Schools	338,519
Total	$4,696,652

Other Base Adjustments - This illustrates primarily the end of the SIMMS program, a five-year agreement with the National Science Foundation. The state contribution was $500,000 in fiscal 1996.

3501 09
Office of Public Instruction **Distribution to Public Schools**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999		
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Base Aid Schedules						14,616,000		14,616,000
02 School Facility Payments		(2,000,000)	2,500,000	500,000		(2,000,000)	3,000,000	1,000,000
03 Migrant Education Lea			300,000	300,000			300,000	300,000
04 Grants			900,000	900,000			900,000	900,000
05 Timber Harvest For Technology		1,505,000		1,505,000		2,795,000		2,795,000
Total For New Proposals		($495,000)	$3,700,000	$3,205,000		$15,411,000	$4,200,000	$19,611,000

Executive New Proposals

1) BASE Aid Schedules - In the 1993 legislative session enactment of HB 667 put in motion a five year process of bringing school equalization into compliance with the constitutional mandate. During this period previously low spending districts are required to increase spending while high spending districts have their budgets frozen. With completion of the five year implementation of finance reform in fiscal 1998 it is proposed to increase in BASE entitlements beginning in fiscal 1999. An increase in the public school BASE aid funding schedules will require current districts spending at the minimum level to increase budget accordingly, allow districts currently spending between the minimum and maximum to increase their budget with voter approval, and allowing some districts spending at or over the maximum to increase their budget with voter approval. Increased state aid would be provided to all districts.

LFD Issue - **Base aid schedules have remained relatively constant over the last five years. Due to inflation and increased enrollment, the state's share of funding for district general fund budgets has declined from 71 percent in fiscal 1991 to 65.1 percent in fiscal 1997. This new proposal would increase the base aid formula**

to provide increased state aid to all districts. Table 4 displays the historical entitlements (which would be effective through fiscal 1998) and the proposed changes to the base aid schedules to become effective for fiscal 1999.

This new proposal would increase direct entitlements to elementary districts from $17,190 to $17,790 and high schools districts from $191,000 to $197,690. Additionally, per ANB entitlements for elementary and high schools would increase as shown in Table 4. The reductions listed under the table are part of current law and would not change. The effect of this new proposal would increase the state's share of district general fund costs.

Funding for this new proposal is entirely general fund. This increase for fiscal 1999 represents a 3.2 percent increase over the fiscal 1996 general fund expenditures. The agency in its initial request asked for approximately $19.5 million per year. The Executive Budget does not request additional funding in fiscal 1998 beyond the amount required for current law and the new proposal request for fiscal 1999 is substantially lower than the agency's request. The issue is: Does the legislature wish to expand expenditures to support education? And if so to what extent?

For a further discussion, please see the "Overview" volume of the LFD Budget Analysis.

Table 4
K-12 General Fund Entitlements

	Current Law FY 95-98	Proposed Law FY 99
Elementary		
Per School District	$17,190	$17,790
Per ANB *	3,343	3,459
High School**		
Per School District	$191,000	$197,690
Per ANB	4,680	4,843

* The per ANB entitlement for elementaries is reduced by $.20 for each additional ANB up to the 1,000th ANB, and then remains constant at $3,143 (for fiscal 1998) or $3,259 (for fiscal 1999). For high schools the reduction is $.50 per AN

** Schools with ANB in 7th and 8th grades are allowed to use the high school per ANB entitlements for their 7th and 8th graders and a pro rata share of the high school per district entitlement.

2) School Facility Payments - The goal of this proposal is twofold: 1) to ensure the safety of students in our public schools by promoting safe school facilities and 2) promote a measure of taxpayer fairness by subsidizing mill levies for repayment of school bonds in low property wealth school districts. For the 1997 biennium, the appropriation for school facility reimbursements totals $3.5 million. This proposal is to increase the appropriation by $2 million for the 1999 biennium to $5.5 million and change the funding from general fund to coal tax.

HB 667 established an appropriation and a formula for providing state school facility payments to low-wealth school districts to assist with debt service payments on school bonds sold after July 1, 1991. If the legislative appropriation is less than the payment amount for which school districts qualify, statute directs the Office of Public Instruction to pro-rate the appropriation among the eligible school districts. In the first year (fiscal 1994) of the school facility payment program, the $1 million legislative appropriation provided 90 percent of the funding for which districts were eligible. In the second year of the program, more districts were eligible for the payments and the $1 million appropriation provided only 72 percent of the funding for which districts were eligible. In 1995, the legislature increased the annual appropriation to $1.5 million for fiscal 1996 and $2 million for fiscal 1997. The funding history for school facility payments is as follows:

Year	Number of districts Receiving Payments	Appropriation	Pro-Ration
FY94	14 districts	$1 million	90%
FY95	20 districts	$1 million	72%
FY96	27 districts	$1.5 million	94%
FY97	35 districts (proj.)	$2 million	95%

On the average, seven new districts have been added to the school facility payment program each year. If funding is increased by $500,000 per year, the program should keep pace with the increased eligibility and come close to being fully funded in the upcoming biennium.

LFD Issue - 20-9-366 through 20-9-371, MCA, describes the eligibility of school districts to receive school facility reimbursement payments. If the district mill value per elementary ANB or the district mill value per high school ANB is less than the corresponding statewide mill value per elementary ANB or statewide mill value per high school ANB, the district may receive a state advance or reimbursement for school facilities in support of the debt service fund. Also, eligibility requires a facility to have been built and for voters within the district to have approved the sale of bonds. The bonds must have been issued after July 1, 1991. The executive is proposing to increase school facility funding by 25 percent in fiscal 1998 and by 50 percent by fiscal 1999. If the legislature wishes to control eligibility growth, it may wish to change the eligibility requirements and/or to control the pro-ration at a level below the executive's recommendation of 100 percent.

The executive's recommended funding level is based upon two factors, both of which are policy issues for legislative consideration:

1) Over 200 school districts currently meet mill value criteria. As more of these schools build and approve bonds, the state's potential liability will grow.

2) It is the executive's intent to fund "close to" all eligible school districts. Consequently, if all eligible school districts are funded, future costs could grow to several millions.

LFD Issue - Under current law, funding for capital outlay reimbursements has been appropriated in the state general fund. The executive proposes funding the reimbursements during the 1999 biennium out of coal severance tax revenues at a point before these revenues reach the coal tax severance trust. Article IX, Section 5 of the Montana Constitution states, "at least fifty percent of the severance tax shall be dedicated to the trust fund." This sentence in the constitution is not conditioned by any legislative voting requirements. In order for the severance tax to be diverted before it reaches the trust fund, the constitution itself must be changed.

Once the severance tax reaches the trust fund, it may be diverted by a three-quarters vote of each house of the legislature. However, the point within the trust fund at which the diversion takes place must also be chosen with care. Coal severance tax revenue is deposited as it initially enters the fund into a bond fund, a portion of which is used to pay obligations on bonds whose proceeds were used to develop state water development projects. Remaining revenue is next deposited in the school contingency bond fund where the funds may be used to pay debt service on bonds issued by schools for buildings projects. The bonds sold for each purpose have statements in them to the effect that 50 percent of severance tax revenues will be deposited

into these intra-trust accounts. Therefore, any diversion of coal tax trust principle must be achieved at a point after the revenue has flowed through these accounts.

Assuming that the bill that reaches the 1997 legislature is written such that trust principle, instead of severance tax revenue, will provide the funding for the school facility reimbursements, the bill will require a three-quarter vote of each house to pass. If the legislature wishes to appropriate money for this new proposal, it may wish to do so in the separate bill and remove this new proposal from HB 2.

For a further discussion, please see the "Overview" volume of the LFD Budget Analysis.

3) Migrant Education LEA- This is federal funding generated by the number of migrant students identified in the state. This $300,000 represents an addition to previously approved levels due to increased numbers of eligible students. These funds are provided to local school districts and operating agencies so they may provide services to migrant students and their families during the summer months while in Montana. Services that will be provided as a result of the distribution of these funds to the local level include: literacy and health services to adults; literacy, health, and out-of-school services to emancipated youth and preschool children; training for local area teachers, support staff, recruiters, and administrators; implementation of high quality instructional programs; enhancement of intra- and inter- state coordination and collaboration. None of these services could be provided without the use of these federal funds.

LFD Comment **- This new proposal is federally funded and does not require any state match of funds.**

4) Technology Literacy Challenge Grants - ESEA Title III provides funding for the integration of instructional technology into classrooms and for the professional training of teachers in the use of technology to improve teaching and learning. This program consists of two parts, the administrative portion, $100,000 per year which is discussed here and the grant portion, $900,000 per year which is discussed in the distribution to schools program. Schools may use funds to purchase software demonstrated effective in the improvement of teaching and learning, fund professional development in the use of technology for educators, and for connectivity to the information highway. Funding is from federal sources.

LFD Comment **- This new proposal is federally funded and does not require any state match of funds.**

5) Timber Harvest for Technology - Enacted by HB 201 of the 1995 legislature this program designated revenues from an increased timber harvest on state school lands for aid to school districts for technology acquisition. The bill allows the funds to be used for purchase, repair, and maintenance of equipment and training of school district personnel. The funds are allocated to districts based on the relative size to the district's BASE budget. Funding is from the increased timber harvest revenues deposited in the state general fund and the expenditure is limited to the amount generated under provisions of HB 201(see "Executive Language Recommendation").

LFD Comment **- As recommended in the previous section on "Executive Language Recommendation", the legislature may wish to restrict this appropriation to this specific purpose.**

Executive Language Recommendation

> "Item [Timber Harvest for Technology] is for school technology as provided in 20-9-534, MCA. The amount expended may not exceed the amount paid into the general fund under the provisions of 20-9-343(3)(a)(ii), MCA."

LFD Issue **- The legislature may wish to restrict the use of this appropriation authority to this specific purpose.**

"Items [K-12 BASE aid, Instate Residential Services, Adult Basic Education, Secondary Vocational Education, Gifted and Talented, and School District Federal Aid] are biennial appropriations."

LFD Issue **- Although the language recommendation states these items are biennial appropriations, the proposed budget table presents them as annual allocations, as shown in Table 1.**

"The Office of Public Instruction may use up to 1 percent of the appropriation provided in item [Special Education] to provide matching funds necessary for Medicaid reimbursements paid for Medicaid-eligible services provided by public school districts."

5101 00 Agency Proposed Budget					Board of Public Education			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec Budget Fiscal 98-99
FTE	2.00	2.00	0.00	4.00	2.00	0 00	4.00	4 00
Personal Services	147,990	6,215	1,500	155,705	6,235	1,500	155,725	311,430
Operating Expenses	94,763	43,300	1,700	139,763	40,344	1,700	136,807	276,570
Equipment	4,946	(95)	0	4,851	(95)	0	4,851	9,702
Total Costs	$247,699	$49,420	$3,200	$300,319	$46,484	$3,200	$297,383	$597,702
General Fund	117,274	4,354	3,200	124,828	2,904	3,200	123,378	248,206
State/Other Special	130,425	45,066	0	175,491	43,580	0	174,005	349,496
Total Funds	$247,699	$49,420	$3,200	$300,319	$46,484	$3,200	$297,383	$597,702

Mission Statement

To exercise "general supervision over the public school system", govern the Montana School for the Deaf and Blind and, together with the Board of Regents, do the general planning, coordinating, and evaluation of the state's educational system. The Certification Standards and Practices Advisory Council investigates and advises the board on matters related to teacher, school administrator, and specialist certification of individuals admitted to practice in the elementary and secondary schools of Montana.

Agency Description

The Board of Public Education, created by Article X, Section 9 of the Montana Constitution, consists of seven voting members appointed by the Governor. The board is charged with exercising "general supervision over the public school system." The board is also designated by statute as the governing board of the Montana School for the Deaf and Blind. Together with the Board of Regents, the board does the general planning, coordinating, and evaluation of the state's educational system (Title 20, Chapter 2, MCA). The board accredits schools, certifies teachers, adopts policies and standards for various educational programs, and orders the distribution of state equalization aid. The board's accreditation standards are the basis for eligibility for local school districts to receive state funds. The board hears cases regarding denial, suspension, and revocation of teacher certificates and reviews teacher education programs leading to interstate reciprocity.

5101 00 Board of Public Education				Biennium Budget Comparison				
Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	4.00	0.00	4 00	4.00	0.00	4.00	2.00	4.00
Personal Services	154,205	1,500	155,705	154,225	1,500	155,725	302,278	311,430
Operating Expenses	138,063	1,700	139,763	135,107	1,700	136,807	236,838	276,570
Equipment	4,851	0	4,851	4,851	0	4,851	4,946	9,702
Total Costs	$297,119	$3,200	$300,319	$294,183	$3,200	$297,383	$544,062	$597,702
General Fund	121,628	3,200	124,828	120,178	3,200	123,378	237,242	248,206
State/Other Special	175,491	0	175,491	174,005	0	174,005	306,820	349,496
Total Funds	$297,119	$3,200	$300,319	$294,183	$3,200	$297,383	$544,062	$597,702

5101 01 Board of Public Education Program Proposed Budget					Administration			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2.00	0.00	0.00	2.00	0.00	0.00	2.00	2.00
Personal Services	90,410	2,070	1,500	93,980	2,090	1,500	94,000	187,980
Operating Expenses	36,900	203	1,700	38,803	(1,267)	1,700	37,333	76,136
Equipment	0	2,081	0	2,081	2,081	0	2,081	4,162
Total Costs	$127,310	$4,354	$3,200	$134,864	$2,904	$3,200	$133,414	$268,278
General Fund	117,274	4,354	3,200	124,828	2,904	3,200	123,378	248,206
State/Other Special	10,036	0	0	10,036	0	0	10,036	20,072
Total Funds	$127,310	$4,354	$3,200	$134,864	$2,904	$3,200	$133,414	$268,278

Program Description

The staff of the Administration Program provide administration, research, clerical functions, and management of business affairs for all programs under the purview of the Board of Public Education. The Board of Public Education is created by Article X, Section 9 of the Montana Constitution and charged with exercising general supervision of the public school system.

Funding

This program is funded with general fund and teacher certification fees. Because the Administration Program provides support to the teachers certification advisory council, which is entirely funded from the certification fees, teacher certification fees are used to help defray the cost of providing that support. The Executive Budget recommends the appropriation of certification fees at the rate of 7.9 percent of the total administration budget, which is consistent with the fiscal 1996 appropriation.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5101 01 Board of Public Education Administration			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	2,070	2,090
02		Inflation/Deflation	(229)	(240)
03		Fixed Costs	1,049	(410)
Total Statewide Adjustments			$2,890	$1,440
Significant Present Law Adjustments				
04	79199	Computer Upgrade	2,081	2,081
Total Significant PL Adjustments			$2,081	$2,081
Other Base Adjustments			($617)	($617)
Grand Total Present Law Adjustments			$4,354	$2,904

4) Computer Upgrade - This proposal represents the Administration Program share of the office upgrade, including new computers, connections with the state network, and a transcription machine and photocopier. The total cost of this upgrade for the agency is

$4,851 per year with the Administration Program share of $2,081 per year funded with general fund and the advisory council share of $2,770 funded with teacher certification fees.

5101 01
Board of Public Education **Administration**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Bd Member Attendant Duties		3,200		3,200		3,200		3,200
Total For New Proposals		$3,200		$3,200		$3,200		$3,200

Executive New Proposals

1) Board Member Attendant Duties - The Executive Budget provides $3,200 per year for travel and per diem to cover expenses of board members for school visitations as members of accreditation teams at colleges, review panels, graduation at the School for the Deaf and Blind, and accreditation standard review meetings. General fund supports this proposal.

LFD Comment - This new proposal provides resources for increased board member travel. According to administrative rules, members shall meet with the Board of Regents to coordinate teachers' education programs at the institutions. These meetings are to ensure the certification policies of the Board of Public education are being met by the institutions. According to the agency, the two boards met six times last year, with three of the meetings conducted via METNET. This new proposal would provide onsite meetings. Also, the Executive Secretary stated on several occasions members of the board have provided their own travel expenses.

5101 03
Board of Public Education — **Advisory Council**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	2.00	0.00	2.00	2.00	0.00	2.00	2.00
Personal Services	57,580	4,145	0	61,725	4,145	0	61,725	123,450
Operating Expenses	57,863	43,097	0	100,960	41,611	0	99,474	200,434
Equipment	4,946	(2,176)	0	2,770	(2,176)	0	2,770	5,540
Total Costs	$120,389	$45,066	$0	$165,455	$43,580	$0	$163,969	$329,424
State/Other Special	120,389	45,066	0	165,455	43,580	0	163,969	329,424
Total Funds	$120,389	$45,066	$0	$165,455	$43,580	$0	$163,969	$329,424

Program Description

The seven-member Certification Standards and Practices Advisory Council was created by the legislature in 1987 to study and make recommendations to the Board of Public Education in the following areas: teacher, administrator, and specialist certification standards; the status and efficacy of approved teacher education programs; the feasibility of establishing standards of professional practices and ethical conduct; and policies relating to the denial, suspension, and revocation of teaching certification and the appeals process. The board staff provides administrative, research, and clerical duties to the council. The advisory council is created in 2-15-1522, MCA, with duties described in 20-4-133, MCA. These duties include making recommendations to the Board of Public Education regarding precertification training, education requirements, and renewal certification requirements for teachers, administrators, and specialists. The council is required to annually submit its recommendations to the Board of Public Education.

Funding

Funding for the Advisory Council is from annual teachers' certification fees. The annual teachers' certification fee is presently $6, from which: 1) $3 is deposited to a state special revenue account for Advisory Council operations; and 2) $3 is deposited to a separate state special revenue account to be appropriated by the legislature for special projects and research studies associated with the professional development of teachers in Montana.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) Computer Upgrade - This proposal

5101 03
Board of Public Education
Advisory Council

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	4,145	4,145
02		Inflation/Deflation	(132)	(159)
03		Fixed Costs	1,091	(368)
		Total Statewide Adjustments	$5,104	$3,618
Significant Present Law Adjustments				
04	79199	Computer Upgrade	297	297
05	91201	Council Research Programs	40,075	40,075
		Total Significant PL Adjustments	$40,372	$40,372
Other Base Adjustments			($410)	($410)
		Grand Total Present Law Adjustments	$45,066	$43,580

represents the advisory council share of the office upgrade, including new computers, connections with the state network, and a transcription machine and photocopier. The total cost of this upgrade for the agency is $4,851 per year, with the advisory council share of $2,770 per year funded with teacher certification fees. Advisory council equipment expenditures were $2,473 in fiscal 1996 and the $297 listed in the table represents the increase.

5) Council Research Programs - There is $3 of the teacher and specialist certification fee designated for research programs of the Certification Standards and Practices Advisory Council. In fiscal 1996 expenditures were approximately one half the amount generated from the fee. This adjustment increases the budgeted amount to the $80,000 anticipated to be used each year of the 1999 biennium.

LFD Issue - The Advisory Council's research fund balance was $94,636 at the end of fiscal 1996. During fiscal years 1993-95 the average fund expenditures were $82,914. Fiscal year 1996 fund expenditures were $50,068, with $10,036 expended to support the administration program for administrative support. Thus, approximately $40,000 was spent on research activities. According to the agency, projected expenditures for fiscal 1997 are approximately $80,000. The executive present law adjustment increases the research fund appropriation authority to $80,000 per year of the 1999 biennium, or the anticipated revenues. Consequently, the executive is not requesting authority to expend any of the fund balance in the 1999 biennium.

The research fund balance is in excess of any past one-year's annual expenditures. Options that the legislature might consider include:

1) direct a larger percentage of these state special revenue funds to offset general fund in the Administration Program;

2) direct the use of a portion of the fund balance to offset general fund used for teachers' certification in the Office of Public Instruction;

3) fund as the executive request, but direct any unused research funds to be deposited into the general fund;

4) approve the executive request as submitted.

Agency Proposed Budget

School for the Deaf & Blind

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	81.68	0.00	0.00	81.68	0.00	0.00	81.68	81.68
Personal Services	2,761,711	38,698	0	2,800,409	29,957	0	2,791,668	5,592,077
Operating Expenses	444,886	23,825	0	468,711	(1,798)	0	443,088	911,799
Equipment	54,164	5,259	0	59,423	(51,064)	0	3,100	62,523
Capital Projects	9,458	0	0	9,458	0	0	9,458	18,916
Transfers	0	0	0	0	0	0	0	0
Total Costs	$3,270,219	$67,782	$0	$3,338,001	($22,905)	$0	$3,247,314	$6,585,315
General Fund	2,915,309	120,447	0	3,035,756	29,760	0	2,945,069	5,980,825
State/Other Special	272,854	(52,665)	0	220,189	(52,665)	0	220,189	440,378
Federal Special	82,056	0	0	82,056	0	0	82,056	164,112
Total Funds	$3,270,219	$67,782	$0	$3,338,001	($22,905)	$0	$3,247,314	$6,585,315

Mission Statement

To provide to hearing impaired and visually impaired individuals a quality comprehensive education that will provide the opportunities to enable them to achieve their greatest potential of independence and success; and to serve as a resource center providing information, consultation, technical assistance, and leadership to (1) parents of handicapped individuals not yet enrolled in an educational program, (2) to public schools in the state having such handicapped individuals enrolled, and (3) to organizations and individuals concerned with services to similarly impaired people.

Agency Description

The goal of the Montana School for the Deaf and Blind (MSDB) is to offer a quality, comprehensive education that will enable its students to achieve their greatest potential. Authority for the school is contained in Title 20, Chapter 8, part 1, MCA. To attend the school, students must be diagnosed as being deaf and/or blind or must have such a significant hearing or sight impairment that they are unable to receive a quality education from the public schools in the state. Additionally, the school serves students statewide through a resource consultant outreach program.

Supplemental Appropriation

The school is requesting a supplemental appropriation of $338,667 general fund as the result of: 1) a court judgment of $495,590 against the school for payment of annual leave and holiday pay for 13 employees, and 2) a workers' compensation audit which resulted in the reclassification of cottage workers at the school and requirements to pay additional premium of $39,962 for each year beginning in fiscal 1995. The school has used internal savings primarily from the delayed hiring of outreach staff and additional revenue from out-of-state tuition to mitigate a portion of the cost.

LFD Comment **- In fiscal 1996, the school lost a longstanding lawsuit. Penalty and back pay totaled $495,590. The school paid $216,962 of the judgment from its fiscal 1996 appropriation. For the remainder, the school received a supplemental appropriation ($278,628 was moved from the fiscal 1997 appropriation to fiscal 1996). Therefore, the 1997 appropriation was less than appropriated by the 1995 legislature. Supplemental appropriation laws require that in order to receive a supplemental appropriation the agency must submit an expenditure reduction plan to show what actions will be taken to stay within the budget of the remaining**

authority in the second year (fiscal 1997).

MSDB's expenditure reduction plan for fiscal 1997 included the following actions:

1) not fill noncritical vacant positions;

2) delay equipment purchases;

3) defer capital improvements;

4) defer maintenance and repair expenditures; and

5) hold expenditures to critical necessities.

Furthermore, if sufficient savings could not be generated in fiscal 1997 through the aforementioned measures, the school indicated it would consider a reduction in force. According to MSDB staff this measure would have a severe impact on the school's ability to serve Montana's sensory impaired children.

Because the school is requesting a replacement of all authority reduced in fiscal 1997, it did not realize any savings from the measures submitted with the original request, and maintenance of full 1997 appropriation authority is requested.

Additionally, in July 1996, the school was audited for its workers' compensation insurance premium and assessed an additional premium of $39,692 (not the $39,962 referred to in the supplemental appropriation above). According to MSDB staff personnel the audit covered the period from January 1, 1995 through January 1, 1996. This additional premium carries forward for calendar years 1996 and 1997. The appropriation authority received from the 1995 legislature for fiscal 1996 and 1997 does not include this additional premium. The additional premium for 1995 was paid for with $19,345 from 1996 appropriation authority and $20,347 was paid for with 1997 appropriation authority. The school is requesting replacement of the additional premium for fiscal years 1996 and 1997.

5113 00

School for the Deaf & Blind **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	81.68	0.00	81.68	81.68	0.00	81.68	81.68	81.68
Personal Services	2,800,409	0	2,800,409	2,791,668	0	2,791,668	5,592,110	5,592,077
Operating Expenses	468,711	0	468,711	443,088	0	443,088	914,993	911,799
Equipment	59,423	0	59,423	3,100	0	3,100	55,498	62,523
Capital Projects	9,458	0	9,458	9,458	0	9,458	19,045	18,916
Transfers	0	0	0	0	0	0	4,900	0
Total Costs	$3,338,001	$0	$3,338,001	$3,247,314	$0	$3,247,314	$6,586,546	$6,585,315
General Fund	3,035,756	0	3,035,756	2,945,069	0	2,945,069	5,871,010	5,980,825
State/Other Special	220,189	0	220,189	220,189	0	220,189	561,941	440,378
Federal Special	82,056	0	82,056	82,056	0	82,056	153,595	164,112
Total Funds	$3,338,001	$0	$3,338,001	$3,247,314	$0	$3,247,314	$6,586,546	$6,585,315

5113 01 School for the Deaf & Blind — Program Proposed Budget					Administration Program			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	188,272	3,935	0	192,207	4,142	0	192,414	384,621
Operating Expenses	39,390	13,566	0	52,956	(13,937)	0	25,453	78,409
Equipment	4,572	(4,572)	0	0	(4,572)	0	0	0
Total Costs	$232,234	$12,929	$0	$245,163	($14,367)	$0	$217,867	$463,030
General Fund	232,234	12,929	0	245,163	(14,367)	0	217,867	463,030
Total Funds	$232,234	$12,929	$0	$245,163	($14,367)	$0	$217,867	$463,030

Program Description

The Administration Program staff provide purchasing, accounting, personnel functions, and management of business affairs for the school. 20-8-113, MCA, requires the superintendent to administer the programs and functions of the school and to prepare and submit summaries and reports as requested by the Board of Public Education.

Funding

This program is funded entirely from the general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5113 01 School for the Deaf & Blind — Administration Program		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	3,935	4,142
02	Inflation/Deflation	(1,318)	(1,397)
03	Fixed Costs	12,383	(12,541)
	Total Statewide Adjustments	$15,000	($9,796)
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		($2,071)	($4,571)
	Grand Total Present Law Adjustments	$12,929	($14,367)

1) Personal Services - This adjustment reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was applied in the 1997 biennium.

2) Inflation/Deflation - This amount is primarily due to decreased telephone costs.

3) Fixed Costs - Audit costs are the primary factor in this group adding $11,755 to the $13,205 experienced in fiscal 1996 for a total of $24,960 in fiscal 1998 then falling $13,205 below the 1996 level to $0 in fiscal 1999.

Other Base Adjustments - This amount represents the reduction in equipment budget from the $4,572 spent in fiscal 1996 to $0 in fiscal 1998 and 1999. This is offset in fiscal 1998 by $2,500 included to develop software for student funds held in trust.

5113 02
School for the Deaf & Blind — General Services Program
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	84,494	25,050	0	109,544	23,930	0	108,424	217,968
Operating Expenses	166,900	10,953	0	177,853	11,831	0	178,731	356,584
Equipment	7,729	(7,729)	0	0	(7,729)	0	0	0
Capital Projects	7,685	0	0	7,685	0	0	7,685	15,370
Transfers	0	0	0	0	0	0	0	0
Total Costs	$266,808	$28,274	$0	$295,082	$28,032	$0	$294,840	$589,922
General Fund	266,808	28,274	0	295,082	28,032	0	294,840	589,922
Total Funds	$266,808	$28,274	$0	$295,082	$28,032	$0	$294,840	$589,922

Program Description

The General Services Program staff are responsible for general upkeep and maintenance of the school's eight buildings and 18.5 acre campus. 20-8-113, MCA, while not specifically mandating this program, indicates maintaining a safe/clean environment for students and staff is an essential ingredient to the efficient and effective administration of all functions and programs at the school.

Funding

This program is funded entirely from the general fund.

Executive Present Law

5113 02
School for the Deaf & Blind — Present Law Adjustments/Issues
General Services Program

Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	25,050	23,930
02	Inflation/Deflation	3,984	4,856
03	Fixed Costs	(4,031)	(4,025)
Total Statewide Adjustments		$25,003	$24,761
Significant Present Law Adjustments			
Total Significant PL Adjustments		$0	$0
Other Base Adjustments		$3,271	$3,271
Grand Total Present Law Adjustments		$28,274	$28,032

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was applied in the 1997 biennium. The program experienced extended vacancies in fiscal 1996 resulting lower than normal costs.

LFD Comment - **Personal services represents a 29.5 percent increase from the base year. During fiscal 1996 one FTE (grounds keeper) was held vacant to provide funds to partially offset the costs of a legal judgment against the school. According to MSDB personnel this position will be filled for fiscal years 1998 and 1999.**

2) Inflation/Deflation - This amount is primarily due to increased costs of natural gas and electric utilities and gasoline.

3) Fixed Costs - This adjustment is from decreased cost of insurance.

Other Base Adjustments - This amount represents the reduction in equipment budget from the $7,729 spent in fiscal 1996 to $0 in fiscal 1998 and 1999 offset by an increase of $11,000 in each year of the biennium for payments to the state building energy conservation program for energy saving modifications to buildings. This had been budgeted at $4,900 per year in previous years but is increased to the $15,900 in accordance with the program agreement.

S13 03 School for the Deaf & Blind Program Proposed Budget				Student Services				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	29.74	0.00	0.00	29.74	0.00	0.00	29.74	29.74
Personal Services	718,248	62,484	0	780,732	55,841	0	774,089	1,554,821
Operating Expenses	105,383	2,183	0	107,566	3,151	0	108,534	216,100
Equipment	24,769	23,491	0	48,260	(21,669)	0	3,100	51,360
Capital Projects	1,773	0	0	1,773	0	0	1,773	3,546
Total Costs	$850,173	$88,158	$0	$938,331	$37,323	$0	$887,496	$1,825,827
General Fund	819,491	88,158	0	907,649	37,323	0	856,814	1,764,463
Federal Special	30,682	0	0	30,682	0	0	30,682	61,364
Total Funds	$850,173	$88,158	$0	$938,331	$37,323	$0	$887,496	$1,825,827

Program Description

20-8-102, MCA, states "...MSDB is a residential and day school..." while P.L. 101-476, the federal Individuals with Disabilities Education Act requires all states to offer residential placement as one option within the array of placement options to handicapped students. This program satisfies Montana's obligation to provide a residential placement option.

Funding

General fund supports this program except for $30,682 received each year from the federal government under the National School Lunch Program.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

S13 03 School for the Deaf & Blind Student Services			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	62,484	55,841
02		Inflation/Deflation	2,348	3,256
03		Fixed Costs	(60)	0
Total Statewide Adjustments			$64,772	$59,097
Significant Present Law Adjustments				
04	91001	Replacement Equipment	23,491	(21,669)
Total Significant PL Adjustments			$23,491	($21,669)
Other Base Adjustments			($105)	($105)
Grand Total Present Law Adjustments			$88,158	$37,323

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was applied in the 1997 biennium and experienced savings was very close to this level. Approximately $20,000 of the increase each year is due to an adjustment of workers' compensation costs resulting from an audit (see supplemental)

2) Inflation/Deflation - This adjustment is primarily due to increased costs of food and medical supplies.

3) Fixed Costs - This amount is from decreased cost of insurance.

4) Replacement Equipment - These amounts reflect the increase or decrease from the fiscal 1996 equipment expenditures of $24,769. The fiscal 1998 amount includes $46,000 for the replacement of two 1980s model vehicles which both have well in excess of 100,000 miles and $2,260 for replacement of beds and mattresses in the cottages which serve as residents for the students. The fiscal 1999 amount provides $3,100 for replacement of desks, tables, chairs, and a couch.

5113 04
School for the Deaf & Blind — Education
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	42.94	0.00	0.00	42.94	0.00	0.00	42.94	42.94
Personal Services	1,770,697	(52,771)	0	1,717,926	(53,956)	0	1,716,741	3,434,667
Operating Expenses	133,213	(2,877)	0	130,336	(2,843)	0	130,370	260 706
Equipment	17,094	(5,931)	0	11,163	(17,094)	0	0	11,163
Total Costs	$1,921,004	($61,579)	$0	$1,859,425	($73,893)	$0	$1,847,111	$3,706,536
General Fund	1,596,776	(8,914)	0	1,587,862	(21,228)	0	1,575,548	3,163,410
State/Other Special	272,854	(52,665)	0	220,189	(52,665)	0	220,189	440,378
Federal Special	51,374	0	0	51,374	0	0	51,374	102,748
Total Funds	$1,921,004	($61,579)	$0	$1,859,425	($73,893)	$0	$1,847,111	$3,706,536

Program Description

The Education Program provides an education for children with hearing and/or sight loss that prevents them from receiving a quality education in their local schools. The Education Program serves visually and hearing impaired children who remain in their local school districts by providing deaf/blind educational support services to the students' local schools. The program also offers "mainstream" programs for on-campus students in a joint effort with the Great Falls public school system.

The Individuals with Disabilities Education Act requires all states to offer residential placement as one option within the array of placement options to handicapped students. This program satisfies Montana's obligation to provide a residential placement option as mandated in 20-8-102, MCA.

Funding

The general fund provides approximately 86 percent of the funding for this program. State special revenue includes interest income from school trust lands, rental income, and reimbursements from school districts for large print/braille materials that are ordered by MSDB for the school districts. Federal revenue includes a grant for handicapped children of $38,812 each year and Medicaid reimbursements for eligible services of $12,562 each year.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5113 04
School for the Deaf & Blind
Education

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(52,771)	(53,956)
02		Inflation/Deflation	176	210
03		Fixed Costs	0	0
Total Statewide Adjustments			($52,595)	($53,746)
Significant Present Law Adjustments				
04	91001	Replacement Equipment	(5,931)	(17,094)
05	91410	Outreach To Full Implementation	36,923	36,923
Total Significant PL Adjustments			$30,992	$19,829
Other Base Adjustments			($39,976)	($39,976)
Grand Total Present Law Adjustments			($61,579)	($73,893)

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 4 percent vacancy savings rate was applied in the 1997 biennium. The reduction partially reflects the settlement of a court judgment in fiscal 1996 (see supplemental appropriation).

LFD Comment **- Personal services also reflects adjustments in the Outreach program, as discussed below. The legislature may want to consider these adjustments separately from the other adjustments to personal services.**

2) Inflation/Deflation - These adjustments are primarily due to increased costs of food and medical supplies.

4) Replacement Equipment - These amounts reflect the increase or decrease from the fiscal 1996 equipment expenditures of $17,094. The fiscal 1998 amount includes $3,353 for the replacement of a computer and $7,810 for replacement of bookcases, work tables, and storage counters.

5) Outreach to Full Implementation - The school's program of providing itinerant services to deaf and blind children in public schools and at home was placed on a self supporting basis in the 1995 biennium resulting in severe cut backs in the program The program was provided general fund support for the 1997 biennium, however do to difficulty in recruiting specialized staff and the school's need to set funds aside to satisfy a court judgment on salaries it only operated at a minimal level in fiscal 1996. Staff have been hired in early fiscal 1997. This adjustment reflects bringing the program to full operational level approved by the 1995 legislature.

LFD Issue **- Montana School for the Deaf and Blind (MSDB) Outreach Program was designed to provide support services to local school districts that serve blind and/or deaf students and in part to avoid the student requiring admittance to the MSDB campus. The 1995 legislature appropriated $195,000 each year of the biennium to provide general fund support for this program. This appropriation was intended to provide 3.12 FTE and related expenses. In the previous biennium, this program had been funded with state special revenue that was to be collected from participating schools for this service. Due to a lack of response by school districts, only $12,000 was collected in fiscal 1994 and the legislature switched the program's funding to general fund.**

Table 1 shows Outreach expenditures for fiscal 1996 and the executive request for fiscal 1998 and 1999.

Table 1
Montana School for the Deaf and Blind
Outreach Program
FY 1996 Expenditures and
FY 1998 and FY 1999 Executive Request

Expenditure Purpose/ Appropriation Request	FY 1996 Expenditures	FY 1998 App. Request	Fiscal 1996-1998 Increase	FY 1999 App. Request	Fiscal 1996-1999 Increase
Personal Services	$76,397	$130,964	$54,567	$130,873	$54,476
Operations	19,327	19,265	(62)	19,265	(62)
Equipment	1,949	1,949	0	1,949	0
Total	$97,673	$152,178	$54,505	$152,087	$54,414

The executive is proposing to add a total of $54,505 in fiscal 1998 and $54,476 in fiscal 1999 to fund the Outreach Program as shown in Table 1. The present law table lists an increase of $36,923; however, this figure only includes partial personal services costs. Additional increases of $17,582 in fiscal 1998 and $17,553 in fiscal 1999 are included in the statewide personal services adjustments.

In fiscal 1996, the school experienced difficulty in finding qualified persons to fill these positions, and two positions were left open to partially fund the costs of a lawsuit. According to the school, two Outreach consultants were onboard for fiscal 1996. The remaining $97,329 of the fiscal 1996 appropriation of $195,000, was used to offset costs of the lawsuit.

Because of two consultant vacancies, the remaining consultants had to prioritize their workload, responding primarily to crisis situations. No service was provided to hearing impaired children enrolled in the Outreach Program. Consultation occurred over the telephone for visually impaired students, which under normal circumstances would have been handled in person. One campus instructor made occasional visits to the field to augment existing staff (these costs were not recorded in the Outreach Program). No students were admitted to the MSDB campus under this program in fiscal 1996 because of the lack of outreach services. The school estimates that, but cannot confirm whether, students currently attending their local schools will have to enroll in the school if outreach services are not funded. MSDB enrollment is shown below in Table 2.

The Executive Budget funds outreach for four consultants (3.12 FTE) who will be located throughout the state to provide services to approximately 180 outreach students. However, the executive funds operational costs below fiscal 1996 expenditures when outreach positions were vacant. With four consultants, contracted operational costs would be expected to increase. The legislature may wish to assess how effective this program will be with operational costs funded at this level. Total funding for the Outreach Program is about $42,000 per year below what was appropriated for the 1997 biennium.

Table 2
Montana School for the Deaf and Blind
Enrollment

	1992	1993	1994	1995	1996
On Campus					
Day Students	48	52	52	46	50
Residential Students	54	47	48	50	50
Total on Campus	102	99	100	96	100
Mainstreamed *	33	33	34	39	40
Outreach	195	196	34	32	180

*Attending Great Falls Public Schools

Other Base Adjustments - This amount primarily represents the elimination of $38,131 spent for legal expenses in fiscal 1996 and the $1,913 reduction operating expenses funded with facility rental income. Fiscal 1996 facility rental income and expenditures were $7,316 of which $1,831 occurred in personal services. The amount shown is the net decrease from the $5,485 spent in operations in fiscal 1996 and the $3,572 anticipated to be available in fiscal 1998 and 1999. In the past income from property owned by the school and its foundation have been budgeted as a language appropriation with no specific amount set in the appropriation bill. We propose making dollar specific appropriations in the 1999 biennium.

5114 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Montana Arts Council				
FTE	10.00	(3.00)	1.50	8.50	(3.00)	2.00	9.00	8.50
Personal Services	300,521	(48,670)	40,071	291,922	(47,774)	53,428	306,175	598,097
Operating Expenses	157,277	(34,354)	45,148	168,071	(51,759)	44,148	149,666	317,737
Equipment	2,929	1,671	0	4,600	(2,929)	0	0	4,600
Grants	240,705	(150,585)	315,224	405,344	(150,585)	315,224	405,344	810,688
Total Costs	$701,432	($231,938)	$400,443	$869,937	($253,047)	$412,800	$861,185	$1,731,122
General Fund	132,018	12,498	350,443	494,959	(11,874)	362,800	482,944	977,903
State/Other Special	132,480	(15,502)	0	116,978	(12,239)	0	120,241	237,219
Federal Special	436,934	(228,934)	50,000	258,000	(228,934)	50,000	258,000	516,000
Total Funds	$701,432	($231,938)	$400,443	$869,937	($253,047)	$412,800	$861,185	$1,731,122

Mission Statement

To encourage the study and presentation of the arts in Montana and to stimulate public interest and participation.

Agency Description

The Montana Arts Council (MAC), authorized by 22-2-101, MCA, cooperates with public and private institutions engaged in artistic and cultural activities. The MAC: 1) recommends appropriate methods to encourage participation in and appreciation of the arts; 2) fosters interest in the state's cultural heritage; 3) expands the state's cultural resources; and 4) encourages and assists freedom of artistic expression through ongoing programs and council initiated projects. The council administers the Cultural and Aesthetic Projects Advisory Committee authorized in 22-2-302, MCA. This committee reviews all proposals for cultural and aesthetic project grants and presents its recommendations to the legislature. Grant proposals approved by the legislature are administered by the MAC.

5114 00

Montana Arts Council — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	7.00	1.50	8.50	7.00	2.00	9.00	10.00	8.50
Personal Services	251,851	40,071	291,922	252,747	53,428	306,175	628,430	598,097
Operating Expenses	122,923	45,148	168,071	105,518	44,148	149,666	356,339	317,737
Equipment	4,600	0	4,600	0	0	0	2,929	4,600
Grants	90,120	315,224	405,344	90,120	315,224	405,344	543,130	810,688
Total Costs	$469,494	$400,443	$869,937	$448,385	$412,800	$861,185	$1,530,828	$1,731,122
General Fund	144,516	350,443	494,959	120,144	362,800	482,944	247,892	977,903
State/Other Special	116,978	0	116,978	120,241	0	120,241	302,226	237,219
Federal Special	208,000	50,000	258,000	208,000	50,000	258,000	980,710	516,000
Total Funds	$469,494	$400,443	$869,937	$448,385	$412,800	$861,185	$1,530,828	$1,731,122

Funding

The executive funds the MAC with a combination of general fund, Cultural and Aesthetic Trust Fund interest earnings and federal funds.

General fund comprises approximately 56.9 percent in fiscal 1998 and 56.1 percent in fiscal 1999. Historically, general fund supports the legislative audit cost, $31,120 each year for grants to local communities and arts in education, and a small percentage of operation costs.

Historically, state special revenue included $35,000 of community match funds used for Artist in the Schools Program. In fiscal 1996 no revenue was recorded in this account; thus, the budget does not request appropriation authority for the program. State special revenue of $116,978 in fiscal 1998 and $120,241 in fiscal 1999 from the Cultural and Aesthetic Fund (coal tax) interest earnings provide revenue for the administration of cultural and aesthetic grants and the cost of the council as authorized in section 22-2-304, MCA.

Federal funds from the National Endowment for the Arts (NEA) are $258,000 in both years of the biennium to support grants, honorariums, and administration.

Overall, MAC funding continues to decrease. These reductions are due mainly to federal cuts in the NEA program, low interest earnings from the Cultural and Aesthetic Trust Fund, and the complete loss of community match funds. However, executive present law adjustments and new proposals would increase general fund $362,941 in 1998 and $350,926 in 1999. See "LFD Issues" under the new proposal section for more information about MAC funding.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment - These present law adjustments are part of the executive's overall proposal for continued operation of MAC, including new proposals. For discussion of this total proposal see the "New Proposals" section.

5114 01 Montana Arts Council Promotion of the Arts			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	(48,670)	(47,774)
02		Inflation/Deflation	(117)	(239)
03		Fixed Costs	5,662	(11,621)
Total Statewide Adjustments			($43,125)	($59,634)
Significant Present Law Adjustments				
04	79199	Equipment	1,671	(2,929)
05	91005	Federal Funds Reduction	(170,292)	(170,292)
06	91011	Eliminate Rural Arts	(5,120)	(5,120)
Total Significant PL Adjustments			($173,741)	($178,341)
Other Base Adjustments			($15,072)	($15,072)
Grand Total Present Law Adjustments			($231,938)	($253,047)

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees. The elimination of 3.0 FTE and related salary and benefit costs is the result of the loss of significant federal funds due to federal program cutbacks and related loss of the rural arts specialist state special funds.

2) Inflation/Deflation - This is primarily due to decreased cost of telephone services.

3) Fixed Costs - These increased computer network charges add $2,121 while audit costs add $3,258 to the $13,956 experienced in fiscal 1996 for a total of $17,214 in fiscal 1998 then falling $13,956 below the 1996 level to 0 in fiscal 1999.

4) Equipment - These amounts reflect the increase or decrease from the fiscal 1996 equipment expenditures of $2,929. The fiscal 1998 amount includes $4,600 for the replacement of two computers.

5) Federal Funds Reduction - This amount is the reduction in operating expenses and grants associated with the federal cutback in budget for the National Endowment for the Arts. In fiscal 1996 base budget expenditures of federal funds were $436,935 which is anticipated to fall to $208,000 each year in the 1999 biennium.

6) Eliminate Rural Arts - With the loss of federal matching funds for this program the Arts Council has eliminated the program. These amounts reflect the operating expenses while personal services are included in item 1. In each year of the current biennium $24,741 of Cultural and Aesthetic Project funds were allocated to fund the Rural Arts program.

Other Base Adjustments - This adjustment is from the elimination of contract services for production of the Council's newsletter and and temporary secretarial and receptionist services.

5114 01
Montana Arts Council **Promotion of the Arts**
Executive Budget New Proposals

		Fiscal 1998				Fiscal 1999			
	New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01	Restoring Minimum Operating	1.50	300,443		300,443	2.00	312,800		312,800
02	Stabilization Program		50,000	50,000	100,000		50,000	50,000	100,000
	Total For New Proposals	1.50	$350,443	$50,000	$400,443	2.00	$362,800	$50,000	$412,800

Executive New Proposals

1) Restoring Minimum Operating - As of October 1, 1998, restores 2 of 3 authorized FTEs lost in fiscal 1997, a grade 14 Technical Assistance Director to help organizations improve business and revenue development skills and a secretary (grade 9) for the agency. Operating costs are $45,148 each year, similar to fiscal 1996 HB 2 plus the cost of the biennial Cultural Congress used for required public planning. The $45,148 also covers operating costs for the two restored FTE, the biennial Governor's Arts Awards, restoration of technical assistance travel to Montana communities and Internet/database/staff training necessitated by downsizing. Grants of $215,224 per year restore a portion of Montana's fiscal 1996 federal arts cuts. This restoration salvages the agency's core programs: grants for organizations and arts education. Operating support grants leverage $9 in private cash for every dollar granted.

2) Stabilization Program - This amount provides a two-year general fund commitment of $50,000 per year to match $50,000 each year from federal special program funds. It will be used to benefit rural Montana arts organizations through grants to help provide local long-term, deeply rooted partnerships between these arts organizations and business, government, education, social service, and civic sectors and in the process stabilize their resource bases. Recipients of the seed grants will match these funds dollar for dollar locally.

LFD Issue - **The Arts Council promotes artistic and cultural activities. It administers grants from federal special revenue and general funds (which are directly appropriated in HB 2) and from the Cultural and**

Aesthetics Trust (C & A), which are appropriated by the Long Range Planning Subcommittee in HB 9. The executive is proposing a major shift in funding, and an increase in general fund support for the arts. In order to show how the executive's funding proposals impact the entire MAC budget, grants included in both HB 2 and HB 9 are discussed.

The Arts Council's grant programs and administrative duties have historically been funded primarily with federal funds, interest earnings from the cultural and aesthetic trust, and a small percentage (less than 20) of general fund. The cultural and aesthetic grants program funds have been used to support grants to artistic and cultural entities. These funds have assisted organizations by providing funds for operations, capital expenditures, and endowment development. Federal funds from the National Endowment for the Arts (NEA) have provided funding for grants and honorariums. In the past, general fund has provided a small amount of funds for grants.

During the present biennium, reductions in federal assistance and coal tax revenues resulted in fewer available grant expenditures and an increased reliance on general fund for grants and administration costs. Additionally, because of the federal assistance reductions, 3.0 FTE have been eliminated. Table 1 shows the history and projection of funding through the executive request.

Table 1
Montana Arts Council Funding Sources
Fiscal Years 1994 - 1999*

	Historical Expenditure				Executive Request			
House Bill 2	FY94	Percent	FY96	Percent	FY98	Percent	FY99	Percent
Fund Source								
General Fund	$122,838	14.2%	$132,018	18.8%	$494,959	56.9%	$482,944	56.0%
C & A	153,086	17.7%	132,480	18.9%	116,978	13.4%	120,241	14.0%
Federal Special	588,562	68.1%	436,934	62.3%	258,000	29.7%	258,000	30.0%
Total	$864,486	100.0%	$701,432	100.0%	$869,937	100.0%	$861,185	100.0%

Fiscal 94 and 96 based on actual expenditures.
Fiscal 98 and 99 based on Executive Budget.

	Appropriated		
House Bill 9*	FY94	FY 96	FY98
C & A	$1,332,255	$704,158	$1,001,978

*Biennial Appropriation

Table 2 shows expenditures by fund type and purpose for both HB 2 and HB 9. The executive proposes the following for the 1999 biennium:

1) increase grants funded by federal funds and general fund by $164,639 for both years of the biennium, and in doing so increase general fund by $265,224 per year for the biennium to replace lost federal funding;

2) increase administration costs by $3,866 in fiscal 1998 but decrease by $4,886 in fiscal 1999, and also increase general fund by $97,717 in fiscal 1998 and $85,702 in fiscal 1999 to replace lost federal funding;

3) decrease the administration to grant ratio from 43.7 percent administration and 56.3 percent grants in fiscal 1996 to 33.9 percent and 66.1 percent, respectively in fiscal 1998. This shift in ratios is due largely to a 42.2 percent increase in C & A Project grants; and

4) accomplish all of the above by increases in general fund authority of $362,941 in fiscal 1998 and $350,926 in fiscal 1999.

The issue to consider is whether the legislature supports the funding policy of replacing federal arts funding with general fund and an increase in overall funding for the arts in 1999 biennium.

Table 2
Montana Arts Council
Expenditure By Fund Type and Purpose

	Actual FY96	Ratio	Executive Budget Request FY98	Ratio	Executive Budget Request FY99	Ratio
Administrative Expenditures						
General Funds	$100,898	21.9%	$198,615	42.8%	$186,600	40.9%
C & A Project (SSR)	132,478	28.8%	116,978	25.2%	120,241	26.4%
NEA (FSR)	227,351	49.3%	149,000	32.1%	149,000	32.7%
Total Administrative Expenditures	$460,727	100.0%	$464,593	100.0%	$455,841	100.0%
Grant Expenditures						
General Funds	$31,120	5.2%	$296,344	32.7%	$296,344	32.7%
C&A Project Grant (50% of Approp.)*	352,079	59.4%	500,989	55.3%	500,989	55.3%
NEA (FSR)	209,585	35.4%	109,000	12.0%	109,000	12.0%
Total Grants	$592,784	100.0%	$906,333	100.0%	$906,333	100.0%
Total Expenditures	$1,053,511		$1,370,926		$1,362,174	
Percent of expenditure for administration		43.7%		33.9%		33.5%
Percent of expenditure for grants		56.3%		66.1%		66.5%

*50% was used because this is a biennial appropriation and actual expenditures would not be representative when conducting a one-year review.

(As shown on Table 2, because of weak revenues from the C & A Trust, the ratio of administrative costs to grants was extremely poor in fiscal 1996. Because of higher interest earnings, this ratio is projected to improve in fiscal 1998 and 1999.)

Three funding options are presented and summarized in Table 3. The top half of the table shows total funding by purpose of expenditure, while the bottom half shows funding by bill number. Because decisions made in the committee concerning the HB 2 appropriation impact the level of funding available for grants in HB 9,

the Institutions and Public Safety Subcommittee may wish to coordinate its actions with those of the Long-Range Planning Subcommittee.

1) If it is not the desire of the legislature to replace reduced funding used to support either grants or administration, the overall funding level for MAC would be reduced. With this option, the legislature would maintain funding at the current level for general fund, anticipated federal revenue, and anticipated state special revenue for administration of C & A Trust grants. This option is shown as "Option 1" in Table 3 and shows funding of $264,036 general fund, $516,000 federal funds, and $237,219 state special revenue. The total HB 2 biennium appropriation would be $1,017,255.

2) If it is the legislature's desire to maintain current overall funding levels for MAC, general fund would be required to replace anticipated losses in federal funding. This option would maintain total funding at the fiscal 1996 level. This level of funding would be achieved by providing appropriations for C & A project administration funds and anticipated federal special revenues as shown in Option 1. The total HB 2 biennium appropriation would be $1,105,044. General fund would increase by approximately $87,789 to attain fiscal 1996 expenditures. This option brings total biennial appropriations to $2,107,022, consistent with doubled fiscal 1996 total expenditures of $1,053,511.

3) Fund the MAC as requested by the executive proposal. This option requires appropriating $494,959 general fund in fiscal 1998 and $482,944 in fiscal 1999, or an additional $362,941 in fiscal 1998 and $350,926 in fiscal 1999 over the fiscal 1996 level.

Table 3
Montana Arts Council
1999 Biennium
Funding Options

Grants and Administration	Option 1	Option 2	Option 3
Administration			
General Fund	$201,796	$201,796	$385,215
C&A Funds	237,219	237,219	237,219
Federal Funds	298,000	298,000	298,000
Subtotal	$737,015	$737,015	$920,434
Grants			
General Fund	$62,240	$150,029	$592,688
C&A Funds	1,001,978	1,001,978	1,001,978
Federal Funds	218,000	218,000	218,000
Subtotal	$1,282,218	$1,370,007	$1,812,666
Total	$2,019,233	$2,107,022	$2,733,100
Administration/Total	36.5%	35.0%	33.7%
Grant/Total	63.5%	65.0%	66.3%
HB 2			
General Fund	$264,036	$351,825	$977,903
C&A Funds	237,219	237,219	237,219
Federal Funds	516,000	516,000	516,000
Subtotal	$1,017,255	$1,105,044	$1,731,122
HB 9			
C&A Grants	$1,001,978	$1,001,978	$1,001,978
Total			
General Fund	$264,036	$351,825	$977,903
C&A Funds	1,239,197	1,239,197	1,239,197
Federal Funds	516,000	516,000	516,000
Total HB 2 & HB 9	$2,019,233	$2,107,022	$2,733,100

Executive Language Recommendation

> "Any federal funds received by the Arts Council in fiscal 1998 or fiscal 1999 which exceeds $258,000 in the year shall reduce general fund appropriated by an equal amount."

This language appears to be in response to the executive's recommendation to replace anticipated losses in federal funds. If the legislature does not choose to make this replacement, it may wish to adjust this language accordingly.

5115 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Library Commission				
FTE	28.50	0.00	0.00	28.50	0.00	0.00	28.50	28.50
Personal Services	925,315	4,656	0	929,971	6,739	0	932,054	1,862,025
Operating Expenses	737,515	110,101	12,767	860,383	106,984	12,767	857,266	1,717,649
Equipment	174,347	917	71,797	247,061	(12,583)	0	161,764	408,825
Grants	933,987	215,230	33,000	1,182,217	286,368	0	1,220,355	2,402,572
Transfers	0	350,000	0	350,000	150,000	0	150,000	500,000
Debt Service	20,806	29,128	0	49,934	29,128	0	49,934	99,868
Total Costs	$2,791,970	$710,032	$117,564	$3,619,566	$566,636	$12,767	$3,371,373	$6,990,939
General Fund	1,394,754	113,094	84,564	1,592,412	118,389	12,767	1,525,910	3,118,322
State/Other Special	611,752	232,224	33,000	876,976	123,972	0	735,724	1,612,701
Federal Special	785,464	364,714	0	1,150,178	324,275	0	1,109,739	2,259,916
Total Funds	$2,791,970	$710,032	$117,564	$3,619,566	$566,636	$12,767	$3,371,373	$6,990,939

Mission Statement

The Montana State Library is an agency whose primary goal is to provide maximum access by the most efficient and effective means to information for all Montanans.

Agency Description

The Library Commission, authorized in 22-1-101, MCA, provides assistance and advice to all tax-supported libraries and to local governments that may wish to establish or improve libraries. In addition to administering state and federal funding to libraries throughout Montana, it: 1) maintains and operates the state library; 2) oversees the six federations of libraries; and 3) does policy development, long-range planning, and coordination of library service throughout the state. It is also responsible for the Natural Resources Information System (NRIS) and the Natural Heritage Program under 90-15-101, MCA.

5115 00

Library Commission

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
				Biennium Budget Comparison				
FTE	28.50	0.00	28.50	28.50	0.00	28.50	28.50	28.50
Personal Services	929,971	0	929,971	932,054	0	932,054	1,935,913	1,862,025
Operating Expenses	847,616	12,767	860,383	844,499	12,767	857,266	1,694,639	1,717,649
Equipment	175,264	71,797	247,061	161,764	0	161,764	419,622	408,825
Grants	1,149,217	33,000	1,182,217	1,220,355	0	1,220,355	2,183,401	2,402,572
Transfers	350,000	0	350,000	150,000	0	150,000	0	500,000
Debt Service	49,934	0	49,934	49,934	0	49,934	20,806	99,868
Total Costs	$3,502,002	$117,564	$3,619,566	$3,358,606	$12,767	$3,371,373	$6,254,381	$6,990,939
General Fund	1,507,848	84,564	1,592,412	1,513,143	12,767	1,525,910	2,849,096	3,118,322
State/Other Special	843,976	33,000	876,976	735,724	0	735,724	1,348,656	1,612,701
Federal Special	1,150,178	0	1,150,178	1,109,739	0	1,109,739	2,056,629	2,259,916
Total Funds	$3,502,002	$117,564	$3,619,566	$3,358,606	$12,767	$3,371,373	$6,254,381	$6,990,939

5115 01 Library Commission Program Proposed Budget					State Library Operations			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	24.50	0.00	0.00	24.50	0.00	0.00	24.50	24.50
Personal Services	749,558	15,658	0	765,216	17,803	0	767,361	1,532,577
Operating Expenses	422,808	45,564	12,767	481,139	42,706	12,767	478,281	959,420
Equipment	150,290	6,474	71,797	228,561	1,474	0	151,764	380,325
Grants	933,987	215,230	33,000	1,182,217	286,368	0	1,220,355	2,402,572
Debt Service	20,806	4,128	0	24,934	4,128	0	24,934	49,868
Total Costs	$2,277,449	$287,054	$117,564	$2,682,067	$352,479	$12,767	$2,642,695	$5,324,762
General Fund	1,353,470	106,463	84,564	1,544,497	111,758	12,767	1,477,995	3,022,492
State/Other Special	184,619	(10,133)	33,000	207,486	(10,003)	0	174,616	382,102
Federal Special	739,360	190,724	0	930,084	250,724	0	990,084	1,920,168
Total Funds	$2,277,449	$287,054	$117,564	$2,682,067	$352,479	$12,767	$2,642,695	$5,324,762

Program Description

The State Library Operations Program provides: 1) information services to state government; 2) referral and back-up services to all libraries in the state; 3) direct library service to all blind and physically handicapped Montana residents; 4) staff consultation and services to individual libraries; and 5) direction to the six library federations. This program administers the state documents depository system, functions as a partial depository for federal government publications, and coordinates the development of library collections throughout the state.

The program also manages the budgetary, personnel, and coordination functions of the State Library. It is the purpose of 22-1-412 and 22-1-413, MCA, to establish a program whereby state funds may be appropriated to the Montana State Library Commission to provide the benefits of quality public library service to all residents of Montana by developing and strengthening local public libraries through library federations as defined in 22-1-402, MCA. Statutes further state that the Montana State Library Commission shall receive and administer the appropriation for state funding to public library federations; and the commission shall allocate such appropriation among such types of grant programs and shall allocate funds among federations according to such formulas for distribution as it shall establish from time to time by rules adopted pursuant to 22-1-103, MCA. Federations receiving state funds from the commission shall report semiannually to the commission concerning the progress of the various projects for which state funding was received, which reports shall contain an accounting for all state funds received.

Funding

Table 1 displays the funding for the State Library Operations program.

Table 1
State Library Operations Funding

Fund Source	Fiscal 1998	Fiscal 1999	Total	% of Total
General Fund				
Grants to Libraries (Biennial)*	$120,000	$131,138	$251,138	
LSCA Maintenance of Effort	82,000	82,000	164,000	
Interlibrary Loan Program	300,000	300,000	600,000	
Operations	1,017,563	939,923	1,957,486	
Library Automation System	24,934	24,934	49,868	
Total General Fund	$1,544,497	$1,477,995	$3,022,492	56.8%
State Special Revenue				
Coal Tax Grants	$130,217	$97,217	$227,434	
Coal Tax Operations	69,084	69,084	138,168	
Miscellaneous Donations	2,000	2,000	4,000	
LBPH Donations	6,185	6,315	12,500	
Total SSR	$207,486	$174,616	$382,102	7.2%
Federal Special Revenue				
Operations	$380,084	$380,084	$760,168	
Grants - LSCA (Biennial)*	550,000	610,000	1,160,000	
Total FSR	$930,084	$990,084	$1,920,168	36.1%
Total Funds	$2,682,067	$2,642,695	$5,324,762	100.0%

*The executive has requested biennial appropriation for these items.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate.

5115 01
Library Commission
State Library Operations

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	15,658	17,803
02		Inflation/Deflation	(1,656)	(2,066)
03		Fixed Costs	32,678	20,961
Total Statewide Adjustments			$46,680	$36,698
Significant Present Law Adjustments				
04	91001	Equipment Replacement	(7,040)	(12,040)
05	91002	On-Going Book Budget	13,514	13,514
06	91003	Grants Increase	215,230	286,368
07	91010	Library Automation	19,866	20,882
Total Significant PL Adjustments			$241,570	$308,724
Other Base Adjustments			($1,196)	$7,057
Grand Total Present Law Adjustments			$287,054	$352,479

2) Inflation/Deflation - This adjustment is primarily due to decreased costs of telephone service.

3) Fixed Costs - Rent and grounds maintenance costs increase $17,795. Computer network charges increase $13,939 in fiscal 1998 and $20,496 in fiscal 1999 reflecting both the increased rate and increased numbers of computers connected to the network. Audit charges rise from $13,505 spent in fiscal 1996 to $18,247 in fiscal 1998 then fall to $0 in fiscal 1999 as the audit is a biennial appropriation.

4) Equipment Replacement - These amounts reflect the decrease from the fiscal 1996 equipment expenditures of $24,040. The fiscal 1998 amount includes $17,000 and the fiscal 1999 amount includes $12,000 for the equipment needs of the agency. With the Safety Committee's recommendations and ADA requirements, some desks and chairs need replacement. Existing printers, faxes and other machines need updating and/or replacing.

5) Ongoing Book Budget - The State Library maintains a specialized collection based on the informational needs of State Government and supports libraries throughout Montana by purchasing more scholarly and sophisticated materials which local libraries may not be able to justify, but for which the state as a whole has considerable demand. The collection also provides materials which are not found elsewhere in Montana. The Montana State Library's Book Budget is spent in three different categories:

(1) 35% of the monies are spent on the periodical subscriptions. The Montana State Library maintains an active periodical title count of 503. The average cost of a periodical title is $112.

(2) 52% of the monies are spent on standing order reference titles. These titles are the core of the information collection for the immediate information needs of state government. The average cost of standing order reference titles is $254 per title.

(3) 13% of the monies are spent on the academic, technical type titles from the general mass market. These funds are the funds available for new titles published in any given year. In 1993 the average per volume price for a hardcover book was $47.17.

Many new and current titles are now available in electronic formats, which provide for faster searches, better access and more timely service to state agencies. These new electronic and/or CD- Rom titles carry an average price tag of $1,917 per title.

LFD Comment - **Including this $13,514 present law adjustment, the executive is requesting a total of $139,764 per year for the ongoing book budget. This is a 10.7 percent increase over fiscal 1996 expenditures of $126,250. According to the agency, the average price increase was 8.2 percent for periodical subscriptions, 9 percent for reference titles, and 2.8 percent for academic and technical titles. Thus, the majority of this adjustment to base is related to book inflation. The inflation totals under "Statewide Adjustments" include a 1 percent inflation rate on books and reference materials in fiscal 1998 and a further 3 percent in fiscal 1999. This adjustment would be funded with general fund.**

6) Grants Increase - Federal funds for grants are budgeted to increase from $339,282 distributed in fiscal 1996 to $550,000 in fiscal 1998 and $610,000 in fiscal 1999. State coal tax and general funded grants are budgeted to continue at levels authorized by the 1995 legislature.

LFD Comment - **The increase in general fund and coal tax-funded grants is $4,212 in fiscal 1998 and $15,650 in fiscal 1999. General fund and state special revenue from coal tax interest earnings provide funds for local**

agency grants. In 1996 total local agency grants were $594,705, of which $497,488 was general fund and $97,217 was from coal tax. Local agency grants, through an application procedure, provide libraries with monies for capital investment, increased core services, and to serve clients with special needs. Federal grants fund special projects providing resources for construction projects and technological enhancements, such as networking libraries. Refer to Table 1 for specific funding of grants. This function is one of five for which 8.36 percent of coal severance tax collections are appropriated. The library also has a new proposal to spend additional coal tax funds. Please reference the "New Proposals" section.

Two different subcommittees will review the budget requests for the five functions. Consequently, the subcommittees should coordinate their efforts in appropriating these funds. A further discussion of this issue is included in the "Overview" volume of the LFD budget analysis.

7) Library Automation - This adjustment provides for the costs of the automation system initiated in fiscal 1996 upon approval of the 1995 legislature. Fiscal 1996 expenditures totaled $29,601. Expenditures for debt service and maintenance contracts increase as the system becomes fully operational.

LFD Comment **- The 1995 legislature appropriated $75,068 for the 1997 biennium to provide partial funding for the library automation system and clearinghouse. This system is an expansion of the library local area network and will be accessible to government agencies, private industries, and individuals. The legislature approved the system through a five-year installment agreement which runs through fiscal 2000. The library's estimate of annual cost during the last session was $68,097. The executive's request of $49,467 for fiscal 1998 and $50,483 for 1999, is less than the previous legislature expected. This system expansion would be funded with general fund.**

5115 01
Library Commission **State Library Operations**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Coal Serverence Tax-Authority Natural Resources Shared			33,000	33,000				
02 Librarian		6,000		6,000		6,000		6,000
03 Circulation Upgrade/Tbl		78,564		78,564		6,767		6,767
Total For New Proposals		$84,564	$33,000	$117,564		$12,767		$12,767

Executive New Proposals

1) Coal Severance Tax - Authority - This project is one element in a long-range plan to eventually connect all of Montana's libraries to the Internet. The project goal is to start with each library situation and connect it to the already-available or soon-to-be-available state connections. The federal grant known as PLIIP (Public Library Internet Infrastructure Project) has been used over the past year to connect ten libraries to the Internet. Local efforts have also been involved in all the connections to varying degrees. Connecting libraries to Internet enables Montana Library users to connect to each other and to richer and more readily accessible information resources.

This money is available through an extra distribution the State Library received during fiscal 1996 based on the passage of SB 83. This money will directly benefit the libraries. None will be used internally.

LFD Issue - The availability of this money is due to the methodology of distribution of the coal severance tax. Before passage of SB 83 by the 1995 legislature, the library received a fixed percentage of the interest earnings, with the actual amount dependent upon coal severance tax earnings. In a fiscal year the library would receive three quarterly payments, while the fourth quarter's payment would accrue and be available the next fiscal year. With SB 83 (effective July 1, 1996) the library receives a set amount, as appropriated by the legislature; thus, in fiscal 1996 the library received its set amount of $166,301 and the additional fourth quarter payment from the previous year's accrual, from which this $33,000 is a part. The library did not have the authority to expend this revenue, and the executive is now requesting authority with this adjustment.

Availability of this funding is a one-time occurrence and any future funds to maintain and upgrade this system will come from either a realignment or reprioritization of services, or the library will ask a future legislature for increased general fund authority. Therefore, if it is the legislature's desire to appropriate these funds, the legislature may wish to consider making this a one-time-only appropriation.

2) Natural Resources Shared Librarian - The Departments of Agriculture and Environmental Quality have joined with the State Library and the NRIS Program to hire a dedicated professional librarian to support their agency libraries.

LFD Issue - The executive is requesting funding to support a partial FTE Natural Resources shared librarian, yet no partial FTE is shown in the new proposal table. This request states the Departments of Agriculture and Environmental Quality and the NRIS program will help fund this position. Neither NRIS nor the other agencies have a similar proposal. The executive funds this partial FTE with general fund.

3) Circulation Upgrade/MTBL -The Montana Talking Book Library (MTBL) provides free library service to 2,600 Montana citizens who, because of a visual or physical disability, cannot read standard print. The MTBL collection consists of 37,000 titles and 130,000 volumes, with approximately 144,000 volumes circulated each year. Computer software is used to manage the patron and collection data for inventory and circulation purposes. The software currently being used was written in 1980 and has not been significantly updated since that time. The present circulation system results in significant down time, easily corruptible files, and staff redoing work. The time and effort of handling this large number of books would be measurably reduced by a more efficient system containing features such as automatic check-out and a nightly turn-around function. System administration staff, in concert with ISD, will choose a system which will be compatible with current technology and will ultimately result in better services to MTBL patrons and more efficient, appropriate use of the MTBL staff.

LFD Comment - According to MSL personnel this new system would improve service to the visually impaired. This system has the capability to assist patrons in selecting materials. This selection is based on a profile of each patron's reading interests and maintains a record of previously read books. The current system lacks the capability to provide this selection process. This selection capability would reduce staff time in assisting patrons and allow more customers to be served. If the legislature approves the request, it may wish to receive a report in the 1999 legislative session discussing impacts on service delivery.

Off-the-shelf software would support this function. This software is compatible with existing hardware. The software has a maintenance contract and provides for upgrades as the software is improved. These maintenance costs are included in the new proposal request. According to the agency, technical support is available within the agency.

Executive Language Recommendation

"Item [State Library Operations] includes biennial appropriations of $251,138 general fund and $1,160,000 federal funds for grants to local libraries."

5115 07
Library Commission
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Natural Resource Information System				
FTE	4.00	0.00	0.00	4.00	0.00	0.00	4.00	4.00
Personal Services	175,757	(11,002)	0	164,755	(11,064)	0	164,693	329,448
Operating Expenses	314,707	64,537	0	379,244	64,278	0	378,985	758,229
Equipment	24,057	(5,557)	0	18,500	(14,057)	0	10,000	28,500
Transfers	0	350,000	0	350,000	150,000	0	150,000	500,000
Debt Service	0	25,000	0	25,000	25,000	0	25,000	50,000
Total Costs	$514,521	$422,978	$0	$937,499	$214,157	$0	$728,678	$1,666,177
General Fund	41,284	6,631	0	47,915	6,631	0	47,915	95,830
State/Other Special	427,133	242,357	0	669,490	133,975	0	561,108	1,230,599
Federal Special	46,104	173,990	0	220,094	73,551	0	119,655	339,748
Total Funds	$514,521	$422,978	$0	$937,499	$214,157	$0	$728,678	$1,666,177

Program Description

The Natural Resources Information Services Program (NRIS) manages the state's natural resources data. It provides a standard system for the acquisition, storage, retrieval, and management of this data, and it coordinates and consults with other state agencies on the geographic information system and the rivers study. The program also administers the Montana Natural Heritage Program, a database on rare or exemplary plants, animals, communities, and geological features.

Funding

Table 2 displays the funding of NRIS by core and Legislative Contract Authority (LCA).

Table 2
NRIS Performance Based Budget Funding
Fiscal 1999 Biennial Funding

	General Fund	State Special	Federal/ Other	Total Funds
NRIS Core				
Fish Wildlife and Parks		$115,000		$115,000
Department of Transportation		200,000		200,000
Department of Environmental Quality		9,448		9,448
Department of Environmental Quality			89,749	89,749
Renewable Resources (RIT)		348,054		348,054
Reclamation & Development (RIT)		308,096		308,096
General Fund	95,830	0	0	95,830
Total Core	$95,830	$980,598	$89,749	$1,166,177
Legislative Contract Authority (LCA)				
LCA (Private)		$250,000		$250,000
LCA (Federal)	0	0	250,000	250,000
Total LCA	$0	$250,000	$250,000	$500,000
Total Funding	$95,830	$1,230,598	$339,749	$1,666,177
Percent Funding	5.8%	73.9%	20.4%	100.0%

5115 07
Library Commission
Performance Based Budget

Natural Resource Information System

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	0.00	4.00	0.00	4.00	4.00	0.00	4.00	4.00
Performance Based	514,521	422,978	0	937,499	214,157	0	728,678	1,666,177
Total Costs	$514,521	$422,978	$0	$937,499	$214,157	$0	$728,678	$1,666,177
General Fund	41,284	6,631	0	47,915	6,631	0	47,915	95,830
State/Other Special	427,133	242,357	0	669,490	133,975	0	561,108	1,230,599
Federal Special	46,104	173,990	0	220,094	73,551	0	119,655	339,748
Total Funds	$514,521	$422,978	$0	$937,499	$214,157	$0	$728,678	$1,666,177

Performance-Based Budget

The Natural Resources Information Services Program is one of sixteen programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the natural resources information services program is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

The above program table illustrates the anticipated costs of meeting the performance targets listed below. Cost increases include operating expenses related to an increase in the contract with Nature Conservancy for operation of the Natural Heritage Program from $468,506 to $501,226 for the biennium, fixed costs and inflation similar to that affecting all agencies - most significantly, network charges increase $7,458 reflecting both the increased rate and increased numbers of computers connected to the network. Transfers represent legislative contract authority which in the current biennium was budgeted at $466,685 and is anticipated to rise to $500,000 in the budget. Fiscal 1996 expenditures of legislative contract authority of $299,228 are not shown in the above table.

Goal: The Natural Resources Information System works to ensure equitable access to natural resource information for all of Montana's citizens, governments, businesses, and industries by using new and emerging information technologies. Specifically, NRIS will work to improve access to natural resource information by developing state-of-the-art tools to make information easier to use and increase the value of existing natural resource information by facilitating and participating in collaborative information sharing projects.

Objective 1: Operate the Montana Natural Heritage Program, an inventory of Montana's biological resources which emphasizes rare or endangered plant and animal species and biological communities.

Performance Measure/Target:

> Provide timely and effective service to requests for information on Montana's natural heritage. MTNHP will complete 1,500 requests for information per year through direct contacts, self-service, and distributed technology means.

FY96	FY 97 Target	FY 98 Target
1,407	1,500	1,500

Performance Measure/Target:

> Continue development and maintenance of BCD relational database system* and annually update at least 25 percent of the records in the four primary databases, thereby assuring the most current and accurate data are provided to requestors. (* - ca. 30 databases, 2,000 fields, 25-27,000 records).

FY96	FY 97 Target	FY 98 Target
6,010	6,500	6,500

Objective 2: Operate the Montana Water Information System (WIS) and the NRIS Geographic Information Systems (GIS). The WIS is the starting point for locating water resources information in Montana, such as data on surface water,

groundwater, water quality, riparian areas, water rights, climate data, and more. The GIS provides technical and data acquisition assistance for statewide GIS projects and to agencies developing in-house GIS capability. NRIS inventories available GIS data and coordinates GIS data standards and sharing throughout the state.

Performance Measure/Target:

Provide timely and effective response to requests for information and services related to Montana's natural resources. NRIS will fill 1,821 requests for natural resource information and services per year through direct contacts, self-service, and distributed technology means.

FY96	FY 97 Target	FY 98 Target
1,735	1,821	1,821

Performance Measure/Target:

NRIS will improve delivery of natural resource information by providing at least 60 databases accessible via the Internet and by creating tools to allow users to retrieve the data as well as use the data on-line to create information products.

FY96	FY 97 Target	FY 98 Target
7	30	30

LFD Issue - **NRIS has recently completed its first year of operation under the performance-based budget (PBB) pilot project. To provide NRIS with flexibility to modify performance-based measures, the 1995 legislature funded NRIS with a biennial appropriation. The 1997 biennium appropriation was $1,656,011 for core authority and $486,685 for legislative contract authority (LCA). In fiscal 1996 NRIS had core expenditures of $514,522 and LCA expenditures of $299,219. For the 1999 biennium the executive is requesting $1,185,492 core authority and $500,000 LCA. Therefore, NRIS is requesting less core authority and slightly more LCA than appropriated by the 1995 legislature.**

NRIS was funded for the 1997 biennium based on 3 goals and 27 performance measures. The LFA received a PBB report covering fiscal 1996 which reported 25 of the 27 performance measures either being met or surpassed. The performance-based budget submitted by the executive for fiscal 1999 lacks the detail of the request submitted for the 1997 biennium. NRIS provided a proposed funding level to achieve each of the goals in the 1997 biennium. This information is not provided with the goals and performance measures submitted with this budget. The present law table refers to "Other Base Adjustments" of $422,324 in fiscal 1998 and $213,824 in fiscal 1999. The executive does not explain the relationship of these items to the performance-based budget. If the legislature desires to provide a different level of appropriation than requested, there is not enough information for the legislature to determine the expected impact on goal achievement.

Executive Language Recommendation

"Item [NRIS program] is a biennial appropriation."

"Item [NRIS program] includes $500,000 for legislative contract authority, subject to the following provisions:
(1) Legislative contract authority applies only to state special funds received from the Montana University

System, federal funds, and private funds.
(2) Legislative contract authority expenditures must be reported on state accounting records. The records must be separate from present law operations.
(3) A report must be submitted by the Montana State Library Commission to the legislative fiscal division following the end of each fiscal year of the biennium. The report must include a listing of projects with the related amount of expenditures for each project."

LFD Issue

Legislative Contract Authority - Legislative contract authority (LCA) provides a means by which the legislature appropriates additional federal and private funds the NRIS may receive after the legislature adjourns, thus eliminating the need for budget amendments. The executive is requesting $500,000 for the 1999 biennium.

LCA appropriations do not appear in the appropriation totals in the appropriations bill. Therefore, the appropriations are understated by any amount actually received. Therefore, the legislature may wish to use LCA only under certain circumstances, including when: 1) the availability of funds is uncertain at the time the legislature meets to set appropriations; and 2) projects cannot be anticipated by the legislature or department. If these conditions are not met, the department should bring the projects and funding requests to the legislature for discussion and consideration for inclusion in HB 2. However, even if the conditions are met the department should consider the budget amendment process for unanticipated federal funds.

Policy Issue

Does the legislature want to continue giving LCA authority? The following are some legislative options:

1) Do not approve LCA. Direct the agency to go through the budget amendment process to spend unanticipated federal funds.

2) Do not approve LCA. Ask the agency to provide an amount for federally funded, on-going projects and appropriate that amount in HB 2.

3) Approve LCA. Include the following language: "The appropriations for legislative contract authority are subject to the following provisions:

a) LCA applies only to federal funds.

b) Expenditures must be reported on state accounting records and kept separate from present law operations. In preparing the 2001 biennium budget for legislative consideration, the office of budget and program planning may not include the expenditures from this item in the present law base.

c) A report must be submitted by the department to the legislative fiscal analyst following the end of each fiscal year of the biennium. The report must include a listing of projects, with the related amount of expenditures and FTE for each project.

d) Expenditures must not be made for ongoing projects or with funds that could have been anticipated by the legislature."

For a further discussion of LCA, please see the LFD issue section in the narrative for the Department of Fish, Wildlife and Parks.

5116 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Vocational Education Council				
FTE	2.50	(2.50)	0.00	0.00	(2.50)	0.00	0.00	0.00
Personal Services	110,141	(110,141)	0	0	(110,141)	0	0	0
Operating Expenses	48,148	(48,148)	0	0	(48,148)	0	0	0
Equipment	287	(287)	0	0	(287)	0	0	0
Total Costs	$158,576	($158,576)	$0	$0	($158,576)	$0	$0	$0
Federal Special	158,576	(158,576)	0	0	(158,576)	0	0	0
Total Funds	$158,576	($158,576)	$0	$0	($158,576)	$0	$0	$0

Mission Statement

To effectively carry out the mandated responsibilities set forth in Public Law 101-392, Section 112, of the Carl D. Perkins Vocational and Applied Technology Education Act of 1990.

LFD Comment **- Federal funding for the Advisory Council for Vocational Education, which provided the entire support for this function, was not continued by Congress in the 1999 biennium. While Congress eliminated all funding specifically for the council, it specified that federal funds currently granted to schools could be used to maintain this function. The council staff chose to terminate the council rather than divert any of these funds.**

Agency Description

The Vocational Education Council was created in 1985 to comply with the Carl D. Perkins Vocational Education Act of 1984. The purposes of the thirteen-member council are to: 1) analyze and evaluate the vocational education program delivery system assisted under the Perkins Act and under the Job Training Partnership Act; and 2) report to and advise the Governor, State Board of Regents of Higher Education, Department of Education, business community, and general public on how well the state's needs for vocational education are being met.

5116 00

Vocational Education Council — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	0.00	0.00	0.00	0.00	0.00	0.00	2.50	0.00
Personal Services	0	0	0	0	0	0	215,709	0
Operating Expenses	0	0	0	0	0	0	111,394	0
Equipment	0	0	0	0	0	0	4,987	0
Total Costs	$0	$0	$0	$0	$0	$0	$332,090	$0
Federal Special	0	0	0	0	0	0	332,090	0
Total Funds	$0	$0	$0	$0	$0	$0	$332,090	$0

Funding

Funding for the Vocational Education Council was provided through the federal Carl D. Perkins Vocational Education Act (Public Law 101-392). The funding source has not been continued for the 1999 biennium.

Present Law Adjustments

The present law adjustment table shows the reduction of all fiscal 1996 expenditures.

5116 01
Vocational Education Council
Administration

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(110,141)	(110,141)
02	Inflation/Deflation	0	0
03	Fixed Costs	(4,608)	(4,608)
	Total Statewide Adjustments	($114,749)	($114,749)
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		($43,827)	($43,827)
	Grand Total Present Law Adjustments	($158,576)	($158,576)

5117 00

Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
				Historical Society				
FTE	49.88	0.00	2.25	52.13	0.00	2.25	52.13	52.13
Personal Services	1,606,376	52,182	74,527	1,733,085	57,242	80,188	1,743,806	3,476,891
Operating Expenses	858,017	94,459	58,332	1,010,808	70,899	98,052	1,026,968	2,037,776
Equipment	50,640	4,560	81,000	136,200	(6,240)	15,000	59,400	195,600
Grants	118,615	131,385	0	250,000	131,385	0	250,000	500,000
Transfers	53,171	188	0	53,359	190	0	53,361	106,720
Total Costs	$2,686,819	$282,774	$213,859	$3,183,452	$253,476	$193,240	$3,133,535	$6,316,987
General Fund	1,363,463	89,137	94,235	1,546,836	68,873	95,241	1,527,577	3,074,413
State/Other Special	128,068	42,711	33,712	204,491	42,795	23,213	194,076	398,567
Federal Special	498,993	156,611	15,627	671,231	151,879	9,000	659,872	1,331,103
Proprietary	696,295	(5,685)	70,284	760,894	(10,071)	65,786	752,010	1,512,904
Total Funds	$2,686,819	$282,774	$213,859	$3,183,452	$253,476	$193,240	$3,133,535	$6,316,987

Mission Statement

To acquire, conserve, and advocate the protection of, provide broad access to, and interpret Montana's varied historical resources: thus promoting--for its citizens and for all others--the use, understanding, appreciation, and enjoyment of those resources.

Agency Description

The Montana Historical Society (MHS), authorized in 22-3-101, MCA, exists for the: 1) use, learning, culture, and enjoyment of the citizens of the state; and 2) acquisition, preservation, and protection of historical records, art, archival and museum objects, historical places, sites, and monuments. The society: 1) maintains a library, an art gallery, a museum, and historical exhibits; 2) publishes the state historical magazine, a newsletter, and other historical works; and 3) provides educational information. The agency also administers the National Historic Preservation Act and the State Antiquities Act.

Executive Language Recommendation

"[Item administration program] includes $65,494 in fiscal year 1998 and $65,337 in fiscal year 1999 and [item museum program] includes $9,506 in fiscal year 1998 and $9,663 in fiscal year 1999 of lodging facilities use tax granted from the Montana promotion program under the Department of Commerce. This appropriation is to provide tours of the capitol and the original governor's mansion and rehabilitation of original governor's mansion."

S117 00
Historical Society

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	49.88	2.25	52.13	49.88	2.25	52.13	49.88	52.13
Personal Services	1,658,558	74,527	1,733,085	1,663,618	80,188	1,743,806	3,159,005	3,476,891
Operating Expenses	952,476	58,332	1,010,808	928,916	98,052	1,026,968	1,883,799	2,037,776
Equipment	55,200	81,000	136,200	44,400	15,000	59,400	90,382	195,600
Grants	250,000	0	250,000	250,000	0	250,000	368,615	500,000
Transfers	53,359	0	53,359	53,361	0	53,361	105,270	106,720
Total Costs	$2,969,593	$213,859	$3,183,452	$2,940,295	$193,240	$3,133,535	$5,607,071	$6,316,987
General Fund	1,452,600	94,235	1,546,836	1,432,336	95,241	1,527,577	2,755,988	3,074,413
State/Other Special	170,779	33,712	204,491	170,863	23,213	194,076	283,648	398,567
Federal Special	655,604	15,627	671,231	650,872	9,000	659,872	1,119,109	1,331,103
Proprietary	690,610	70,284	760,894	686,224	65,786	752,010	1,448,326	1,512,904
Total Funds	$2,969,593	$213,859	$3,183,452	$2,940,295	$193,240	$3,133,535	$5,607,071	$6,316,987

5117 01
Historical Society
Program Proposed Budget

Administration Program

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	13.00	0.00	1.25	14.25	0.00	1.50	14.50	14.25
Personal Services	405,666	16,769	47,354	469,789	18,351	58,310	482,327	952,116
Operating Expenses	305,552	69,980	24,500	400,032	52,940	20,000	378,492	778,524
Equipment	3,900	(400)	66,000	69,500	(2,900)	0	1,000	70,500
Total Costs	$715,118	$86,349	$137,854	$939,321	$68,391	$78,310	$861,819	$1,801,140
General Fund	558,315	42,987	94,235	695,537	24,986	49,689	632,990	1,328,527
State/Other Special	111,260	36,389	33,712	181,361	36,322	23,213	170,795	352,156
Federal Special	45,543	6,973	0	52,516	7,083	0	52,626	105,142
Proprietary	0	0	9,906	9,906	0	5,408	5,408	15,314
Total Funds	$715,118	$86,349	$137,854	$939,321	$68,391	$78,310	$861,819	$1,801,140

Program Description

The Administration Program provides supervision, administration, and coordination of the five programs in the Montana Historical Society. Program staff are responsible for the management, planning, direction, and leadership of the society. Activities include public information, payroll/personnel, fund raising, financial reporting, business management, security, and building management. In addition, the program provides tours and traveling exhibits. The society is required by state law to operate an Administration Program.

Funding

Approximately 74 percent of the Administration Program is funded with general fund. State special revenues are from donations and bed tax. Federal funds reflect indirect costs of administering the National Park Service federal programs.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 5 percent vacancy savings rate was applied in the 1997 biennium.

5117 01
Historical Society
Administration Program

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	16,769	18,351
02		Inflation/Deflation	(846)	(1,050)
03		Fixed Costs	35,280	18,848
		Total Statewide Adjustments	$51,203	$36,149
Significant Present Law Adjustments				
04	91001	Equipment Replacement	(400)	(2,900)
05	91002	Original Governor'S Mansion Maintenanc	30,000	30,000
		Total Significant PL Adjustments	$29,600	$27,100
Other Base Adjustments			$5,546	$5,142
		Grand Total Present Law Adjustments	$86,349	$68,391

2) Inflation/Deflation - This reduction is primarily due to decreased cost of telephone services.

3) Fixed Costs - Building rent increases $9,804 and $14,414 in fiscal 1998 and 1999 respectively, computer network charges increase $4,998, audit costs add $20,278 to the $758 experienced in fiscal 1996 for a total of $21,036 in fiscal 1998 then falling $758 below the 1996 level to 0 in fiscal 1999.

4) Equipment Replacement - These amounts reflect the decrease from the fiscal 1996 equipment expenditures of $3,900. The fiscal 1998 amount includes $2,500 for replacement of a computer and $1,000 for a printer. The fiscal 1999 amount is $1,000 for a security camera.

5) Original Governor's Mansion Maintenance - This adjustment allows $30,000 per year from accommodations tax revenues for maintenance items. In fiscal 1996 $25,000 was used for this purpose but doesn't show in base expenditures because it was transferred to the Department of Administration to make the repairs.

LFD Issue **- The 1995 legislature authorized, as a new proposal, $75,000 each fiscal year of the 1997 biennium from the accommodations tax administered by the Department of Commerce Montana Promotions Program. This grant provided additional funds to the Historical Society to operate the Capitol and Governor's Mansion Tour Program. Additionally, a portion of this grant was authorized to print brochures of the Capitol and restore the Original Governor's Mansion. The 1995 legislature intended for this grant to continue in future biennia and included language in HB 2 to that effect. The executive includes this amount each year of the 1999 biennium, including $30,000 each year in this program as described above.**

Because the Department of Commerce is the authority for determining which entities receive accommodations tax grants, it ultimately determines whether MHS receives this grant. Therefore, while the legislature appropriated the fund; it technically cannot dictate to the Department of Commerce whether and to what extent MHS actually receives these funds.

The Historical Society also receives a 1 percent allocation of accommodations tax in statute for the installation or maintenance of roadside historical signs and historic sites.

Options

1) If it is the intent of the legislature to continue funding this grant, then the legislature may consider adjusting the statutory allocation of accommodations tax to the MHS. A percentage increase of 1 percent per year would be required to generate an additional $90,000 per year. This option would reduce accommodations tax revenues available for other purposes.

2) If the legislature wished to appropriate these funds in HB 2, it could simply allocate the funds in statute without creating a statutory appropriation.

3) If it is the intent of this legislature not to continue funding, disapprove the executive request for this authority.

Other Base Adjustments - This amount includes increased contracted services for artwork conservation and promotional brochures and printing costs for Tour Brochures.

5117 01
Historical Society
Executive Budget New Proposals

Administration Program

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Deputy Director	0.75	32,865		32,865	1.00	43,821		43,821
02 Agency Computer Network System		61,370	16,630	78,000		5,868	1,632	7,500
03 Volunteer Coordinator	0.50		14,489	14,489	0.50		14,489	14,489
04 History Conference Increase			7,500	7,500			7,500	7,500
05 Sales To The Public			5,000	5,000			5,000	5,000
Total For New Proposals	1.25	$94,235	$43,619	$137,854	1.50	$49,689	$28,621	$78,310

Executive New Proposals

1) Deputy Director - A grade 18 is requested to assist the current director in heritage tourism and preservation as well as to assure a smooth transition to a new director as the current director approaches retirement. Funded by general fund.

LFD Issue - **Funding this new proposal establishes permanent FTE and provides funding as long as the FTE exists. Since the executive request did not refer to any new Historical Society ventures, the legislature may wish to ask what functions have changed or additional duties require establishment of this position. If the purpose of this new proposal is to provide a smooth transition to a new director as the current one approaches retirement, then the legislature may wish to fund this as a one- time-only appropriation (and probably for only one year instead of two). Additionally, a deputy director's management duties would probably cover the entire agency and therefore it would be more appropriate to fund this position with a mixture of general fund, state special revenue, and proprietary funds.**

2) Agency Computer Network System - This proposal pays for the cost of wiring, hardware, and software to allow the Society to network its computers and bring computers up to a minimum standard to enable networking. This will enable sharing information within the Society and networking to the state system. It will allow the Society to place information on the Internet and to develop electronic databases that provide information about collections, projects, events, and help that is available to access this information. It also allows the purchase of 18 computers to provide to those people who do not have them or are using ones that are obsolete. Funded by a mixture of general fund, state special revenue from donations, and proprietary revenues.

LFD Issue - **The establishment of a computer network with specific software usually requires technical support. According to the agency, the Administration Program does not have an FTE for computer support. This request is for computers, a file server, memory upgrades, and a scanner. This network system would probably require training, maintenance, and further software support. If ISD is to maintain this system then an opportunity cost is involved in which personnel are providing services in a manner other than what the legislature intended.**

This proposal is funded with $61,370 general fund, $11,723 state special revenue from donations, and $4,906 enterprise funds.

3) Volunteer Coordinator - This proposal adds a 0.50 FTE Volunteer Coordinator, grade 12 funded through donations. The Society's volunteer organization, The Friends of the Society, provides invaluable assistance to the Society. The total volunteer hours worked each year exceed those required to fill 1.50 FTE positions. Annually the Museum's Education Office coordinates the work of nearly 100 volunteers who serve all of the Society's five operational programs. The volunteers undertake a wide range of tasks -- providing tours to school children, planning receptions, cataloguing artifacts, inventorying museum store merchandise, and so on. Every niche of the Society is positively affected by the help obtained from volunteers. This will allow the Society to actively recruit new volunteers, provide in-depth training, increase tour services, and more adequately meet staffing needs. Volunteer management and coordination of volunteer efforts will be enhanced by the addition of this part-time position, and will result in better efficiency and effectiveness in providing services to the Society's public. This is funded from donations.

4) History Conference Increase -This request is for an increase in the History Conference/Donations Authority. It is a result of past increases in donations and attendance to the History Conference and anticipated increases in future donations and expenditures relating to the History Conference. This is funded from donations.

LFD Comment **- Historically, the History Conference has been a three-day event. The conference includes numerous and simultaneous workshops that are presented by several speakers. The Society funds all hotel and pier diem costs for these individuals. The Society is forecasting an increase in the number of days for this event and increasing the number of workshops and tours. According to the agency, there are approximately 36 people who receive partial or full funding for this event. This new proposal will provide funding for more speakers, workshop material, and tours. This new proposal is funded with state special revenue from donations.**

5) Sales to the Public - This request is to establish an Enterprise Account in the Administration Program for the Education and Public Programming Office. This office orchestrates a wide range of events for families, adults, schools, teachers, and children that extend the goals of the Society; classes, workshops, program series, educational materials, and tours. In order to--at a minimum--recover costs of materials and expenses, the Office needs the authority to collect funds to offset direct costs. In some instances, the Office may also need the ability to recover indirect costs associated with public programming--such as advertisements and staff time. At the present time, this fund isn't anticipated to generate revenue, but in establishing authority to recover costs, the Society does anticipate being more "entrepreneurial." Two examples to illustrate the use of these funds: 1) The Society usually hosts at least one children's workshop each year, directly related to a current exhibit. Last summer, the Society sponsored a children's Horses and Art workshop that enabled students to learn about the kinds of horses most used in Montana and to learn from artists about how to draw, paint, and sculpt horses; 2) The Society would like to sponsor a range of educational bus trips to historic places in Montana. This is proprietary funded from sales revenue.

LFD Comment **- This new proposal would provide an account entity to separate funds from the donations account with which the agency has been recording revenues and expenses for this type of activity. Additionally, this new proposal expands enterprise activities within the Administration Program. Is it the intent of the legislature for the Historical Society to move in this "entrepreneurial" direction? For further discussion of enterprise activity, refer to the LFD issue addressed in the Publication Program for this agency.**

5117 02
Historical Society
Program Proposed Budget

Library Program

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec Budget Fiscal 98-99
FTE	13.75	0.00	0.00	13.75	0.00	0.00	13.75	13.75
Personal Services	423,247	25,460	0	448,707	27,114	0	450,361	899,068
Operating Expenses	81,541	4,194	0	85,735	4,069	45,552	131,162	216,897
Equipment	17,822	3,978	6,000	27,800	578	6,000	24,400	52,200
Total Costs	$522,610	$33,632	$6,000	$562,242	$31,761	$51,552	$605,923	$1,168,165
General Fund	469,570	28,239	0	497,809	29,772	45,552	544,894	1,042,703
State/Other Special	3,991	532	0	4,523	531	0	4,522	9,045
Proprietary	49,049	4,861	6,000	59,910	1,458	6,000	56,507	116,417
Total Funds	$522,610	$33,632	$6,000	$562,242	$31,761	$51,552	$605,923	$1,168,165

Program Description

The Library Program consists of the library and archives functions. This program acquires, organizes, preserves, and makes accessible to the public published materials, historic records and manuscripts, photographs, and oral history illustrative of the history of Montana, the surrounding region, and the trans-Mississippi West. This program houses the official Archives of State Government. It also assists researchers seeking historical information.

Funding

Approximately 89 percent of the Library Program is funded with general fund. State special revenue includes Teakle trust funds earmarked for the acquisition of specialized books. Proprietary funds are 10 percent of the budget and are from the sale of photographs and photocopies of documents.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5117 02
Historical Society
Library Program

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	25,460	27,114
02	Inflation/Deflation	175	41
03	Fixed Costs	2,169	2,178
	Total Statewide Adjustments	$27,804	$29,333
Significant Present Law Adjustments			
04 91001	Equipment Replacement	3,978	578
	Total Significant PL Adjustments	$3,978	$578
Other Base Adjustments		$1,850	$1,850
	Grand Total Present Law Adjustments	$33,632	$31,761

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 5 percent vacancy savings rate was applied in the 1997 biennium.

3) Fixed Costs - These are increased computer network charges.

4) Equipment Replacement - These amounts reflect the increase from the fiscal 1996 equipment expenditures of $17,822. The fiscal 1998 amount includes $13,000 for library books, $2,000 for book and periodical binding, $3,400 for a copy camera and $3,400 for storage cabinets. The fiscal 1999 amount includes same except for the copy camera.

Other Base Adjustments - These are for increased travel and contracted services for Western Library Network.

5117 02
Historical Society **Library Program**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Archive Storage						45,552		45,552
02 Microfilm Reader Printer			6,000	6,000			6,000	6,000
Total For New Proposals			$6,000	$6,000		$45,552	$6,000	$51,552

Executive New Proposals

1) Archives Storage - This request is to contract for archives storage, resolving the current crisis of space. Funding is from General Fund.

LFD Comment - **MHS is responsible for archiving all state records. The agency has many years of information that requires storage. The agency, in its budget submission, requested more than $478,000 to provide storage for 10-20 years of information. The executive recommendation is to contract off-site storage. The $45,552 referred to in fiscal 1999 would be an annual amount, with probable increases based on more information to store in the future. The agency currently requires 684 three-foot sections at a cost of $700 per section. A possible alternate long-term solution would be to purchase the shelving in increments and reduce the cost of off-site storage. According to the agency this would provide immediate storage space; however, there is only limited space available in the MHS building. MHS personnel have stated that at some point, off-site storage is the only solution.**

2) Microfilm Reader Printer - Authority is recommended to purchase a microfilm reader-printer. Current printers are overloaded, frequently requiring patrons to wait to use and, even more often, reference staff to defer responding to a mail request because they cannot obtain time on the microfilm printer because of patron use. Funding is from proprietary funds.

LFD Comment - **In October 1996 the agency requested and the budget office approved a budget amendment for $15,000 to purchase two microfilm reader/printers. According to the agency, the service life of this piece of equipment is ten years. The agency has a total of seven (the budget amendment and this request would bring the total to 10) microfilm reader/printers (of which two function in the printing mode). Obsolescence is a problem with this type of equipment. As the printers age, parts support becomes more difficult. The agency has five reader/printers that only function in the read mode, and cannot be repaired. The funds for this equipment are proprietary funds generated from revenues received for copies made. In fiscal 1996 patrons paid $20,454 for the use of these services.**

S117 03 Historical Society Program Proposed Budget					Museum Program			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	6.50	0.00	0.25	6.75	0.00	0.00	6.50	6.75
Personal Services	200,634	8,126	5,295	214,055	8,383	0	209,017	423,072
Operating Expenses	51,206	7,181	1,332	59,719	7,169	0	58,375	118,094
Equipment	2,200	1,700	0	3,900	(2,200)	0	0	3,900
Total Costs	$254,040	$17,007	$6,627	$277,674	$13,352	$0	$267,392	$545,066
General Fund	227,982	11,099	0	239,081	7,301	0	235,283	474,364
State/Other Special	12,817	5,790	0	18,607	5,942	0	18,759	37,366
Federal Special	0	0	6,627	6,627	0	0	0	6,627
Proprietary	13,241	118	0	13,359	109	0	13,350	26,709
Total Funds	$254,040	$17,007	$6,627	$277,674	$13,352	$0	$267,392	$545,066

Program Description

The Museum Program collects, preserves, and interprets the history of Montana through its material culture. The museum collects fine arts and historical, archeological, and ethnological artifacts from Montana and the general geographic region. The program interprets its collections through exhibits and educational activities. The Montana Historical Society is required by state law to operate the Museum Program in accordance with 22-3-103 (2), MCA, which states, "The historical library and any historical museum administered by the society in accordance with the provisions of this part shall be independent of any other library, museum, or gallery owned, maintained, or operated by the state of Montana."

Funding

The Museum Program is funded with approximately 87 percent general fund. State special revenue includes donations and accommodations tax revenue to fund tour guides at the Original Governor's Mansion. Proprietary funds of approximately $13,000 each year are from the sale of copies of photographs of the collections and rental of traveling exhibits out of state.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings

S117 03 Historical Society Museum Program			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	8,126	8,383
02		Inflation/Deflation	(302)	(310)
03		Fixed Costs	3,928	3,924
		Total Statewide Adjustments	$11,752	$11,997
Significant Present Law Adjustments				
04	91001	Equipment Replacement	1,700	(2,200)
		Total Significant PL Adjustments	$1,700	($2,200)
Other Base Adjustments			$3,555	$3,555
		Grand Total Present Law Adjustments	$17,007	$13,352

rate. A 5 percent vacancy savings rate was applied in the 1997 biennium.

3) Fixed Costs - These are primarily due to increased computer network charges.

4) Replacement Equipment - These amounts reflect the increase or decrease from the fiscal 1996 equipment expenditures of $2,200. The fiscal 1998 amount includes $2,500 for the replacement of a computer and $1,400 for replacement equipment for the museum's carpentry workshop.

LFD Comment **- Other base adjustments, which comprise almost one-half of all operating expense adjustments, are almost entirely repair and maintenance expenditures for restoration of the Original Governor's Mansion.**

5117 03
Historical Society **Museum Program**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Ims General Operating Balance	0.25		6,627	6,627				
Total For New Proposals	0.25		$6,627	$6,627				

Executive New Proposals

1) IMS General Operating Balance - The Historical Society Museum's current Institute of Museum Services Operating Support federal grant ends on September 30, 1997. Some of the total grant of $49,504 will be expended during fiscal 1998. This request is for additional authority to cover costs of a 0.75 FTE Museum Technician from July 1, 1997 to September 30, 1997, and for contracted services to pay for a Museum Intern.

5117 04 Historical Society Program Proposed Budget					Publications			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	9.13	0.00	0.75	9.88	0.00	0.75	9.88	9.88
Personal Services	286,973	(10,158)	21,878	298,693	(9,446)	21,878	299,405	598,098
Operating Expenses	336,660	3,906	32,500	373,066	3,220	32,500	372,380	745,446
Equipment	10,372	(4,372)	0	6,000	(5,372)	0	5,000	11,000
Transfers	53,171	188	0	53,359	190	0	53,361	106,720
Total Costs	$687,176	($10,436)	$54,378	$731,118	($11,408)	$54,378	$730,146	$1,461,264
General Fund	53,171	228	0	53,399	230	0	53,401	106,801
Federal Special	0	0	0	0	0	0	0	0
Proprietary	634,005	(10,664)	54,378	677,719	(11,638)	54,378	676,745	1,354,463
Total Funds	$687,176	($10,436)	$54,378	$731,118	($11,408)	$54,378	$730,146	$1,461,264

Program Description

The Publications Program promotes the study of Montana history through lectures and publications. The program publishes quarterly editions of Montana, the Magazine of Western History and the Montana Post, the official newsletter of the society. It also publishes books under the Montana Historical Society Press imprint and operates the retail and mail order museum store. The Montana Historical Society is required by state law to operate the Publications Program in accordance with 22-3-107, MCA, which states in part, "(14) to collect and preserve books, maps, manuscripts, and other materials as will tend to facilitate historical, scientific, and antiquarian research; (15) to promote the study of Montana history by public program and publications; (16) to publish a roadside history of Montana, with maps, photographs and text that will enable tourists, citizens, and students to understand the history of the countryside seen from the state's main roads."

Funding

The approximate 8 percent general fund, budgeted as a transfer, pays personal services costs for approximately 2.00 FTE involved in publishing Montana, the Magazine of Western History. The transfer allows these funds to be spent from the proprietary account in accordance with generally accepted accounting principles (GAAP). The magazine is not self-sustaining and past legislatures have appropriated general fund to subsidize its publication. Please refer to the LFD issue in the new proposal section of this program for a discussion on the continued subsidization of this program. The remaining 92 percent of the funding of this program is from proprietary funds from magazine sales.

Executive Present Law

5117 04 Historical Society Publications		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(10,158)	(9,446)
02	Inflation/Deflation	(183)	(210)
03	Fixed Costs	2,792	2,133
Total Statewide Adjustments		($7,549)	($7,523)
Significant Present Law Adjustments			
04 91001	Equipment Replacement	(4,372)	(5,372)
Total Significant PL Adjustments		($4,372)	($5,372)
Other Base Adjustments		$1,485	$1,487
Grand Total Present Law Adjustments		($10,436)	($11,408)

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. The reduction results as termination pay costs were incurred in fiscal 1996. A 5 percent vacancy savings rate was applied in the 1997 biennium.

3) Fixed Costs - These are increased computer network charges, rent, and audit costs.

4) Equipment Replacement - These amounts reflect the decrease from the fiscal 1996 equipment expenditures of $10,372. The fiscal 1998 amount includes $2,500 for the replacement of a computer and $3,500 for a scanner. Fiscal 1999 is replacement of a cash register.

Other Base Adjustments - These are for contracted services for magazine subscription maintenance.

5117 04 Historical Society Executive Budget New Proposals					Publications			
	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Editor	0.50		46,989	46,989	0.50		46,989	46,989
02 Graphic Designer	0.25		7,389	7,389	0.25		7,389	7,389
Total For New Proposals	0.75		$54,378	$54,378	0.75		$54,378	$54,378

Executive New Proposals

1) Editor - Request for increased spending authority for a 0.50 FTE Assistant Editor Position for the Magazine. During the past year MHS Press operations have been expanded by hiring a full-time press editor and committing through author contracts to increasing the number of books published from 1 or 2 to 4 or 5 per year. Adding this half-time editor, who will concentrate solely on magazine work, will enable the existing half-time editor to concentrate solely on press work. The program should realize substantially greater efficiency with this division of magazine from press responsibilities as well as be better able to handle the increased work loads associated with more than doubling the number of books published each year. The proposal includes $32,500 each year for increased printing and rented space. This proposal is funded from

publication income.

2) Graphic Designer - This request will expand the graphic designer to a full-time employee from a 0.75 FTE. The increased number of press books published and in-house design of the Magazine, Post, and other Society publications has required the full time duties of a computer graphic designer. The Society saves both time and money by performing these tasks in-house rather than bidding out the work to outside contractors. The Society uses a desk-top publishing method that allows for increased effectiveness in publishing, editing, and designing all publications instead of shipping out bits and pieces which then have to be approved, combined, and finally printed by outside vendors. This proposal is funded from publications income.

LFD Issue - The Executive Budget requests general fund of $106,800 over the biennium to subsidize the production of Montana the Magazine of Western History (fund a portion of 2.0 FTE). The magazine has not been self-sufficient. However, the Publications Program as a total has expanded each biennium with the use of proprietary funds.

As shown in Table 1, for the 1993 biennium the legislature approved $60,000 to purchase merchandise for resale. For the 1995 biennium the legislature approved $25,913 for a 0.5 FTE press editor and $24,000 for increased book production. For the 1997 biennium, $102,507 was approved by the legislature for 1.0 FTE press editor, 0.25 FTE press editor, 0.5 FTE administration support, and $60,000 to purchase merchandise for resale. The executive new proposal for the 1999 biennium requests $108,756 for the 1999 biennium to support an additional 0.5 FTE press editor and a 0.25 FTE graphic artist. All of the above appropriations ($381,176) have been or will be funded by the program's proprietary fund. Appropriation authority to support the magazine's 2.0 FTE over this same period has been and will be at least $410,436.

Table 1
Montana Historical Society
Publication Program
History of New Proposals
and the 1999 Biennium New Proposal

	Historical New Proposal Appropriations			Executive New Proposal	
Purpose of Approp. Authority	1993 Biennium	1995 Biennium	1997 Biennium	1999 Biennium	Total
Merchandise	$60,000	$0	$60,000	$0	$120,000
Operations	0	24,000	0	0	24,000
FTE Support	0	25,913	102,507	108,756	237,176
Total	$60,000	$49,913	$162,507	$108,756	$381,176

The fund balance of this proprietary fund (which includes revenue from merchandise sold, magazine subscriptions, exhibit rentals, and transfers from the general fund) was $403,705 at the end of fiscal 1996 (of which $375,707 was inventory). Additionally, this fund balance has averaged $409,772 over the past six years.

According to the agency, this fund balance is necessary to allow for sufficient cash flow for magazine production and to cover the deferred revenues associated with subscriptions ($96,195 as of fiscal 1996). When analyzing the program's fund balance at the end of fiscal 1996, its current ratio was almost 5:1 (ratio of current assets to current liabilities). Current assets were $502,652 and its current liabilities were $100,719. Working capital, the difference between current assets and current liabilities, was $401,943. Working capital is the amount of resources available for business activity. It appears, based on a fund balance analysis and projected cashflows, that the new proposal will be funded, at least initially, by using existing fund balance and anticipated increased cash flows generated from the increased sales of merchandise (including book sales). Therefore, increased enterprise activities should provide sufficient revenues to maintain operations, and could provide funds to partially or fully replace the general fund subsidization of the magazine.

The agency created the merchandise store to support press activities. Internal policy allows for the merchandise sales to subsidize press operations (production of books). However, the agency has not subsidized the magazine's cost with this source of revenue (i.e., magazine revenues support only the magazine, revenues from merchandise sales supports the merchandise store and press operations).

There are three issues which the legislature might consider with this program.

1) Does the legislature wish the Historical Society to continue its expansion in publications? According to the agency, book production will increase from 1 or 2 to 4 or 5 per year. Table 2 shows the appropriation growth within the program over the last three bienniums and the Executive Budget.

Table 2
Montana Historical Society
Publication Program
History of Total Appropriations
and the 1999 Biennium Executive Request

	Historical Total Program Appropriations			Executive Budget Request
Purpose of Approp. Authority	1993 Biennium	1995 Biennium	1997 Biennium	1999 Biennium
Personal Services	$326,240	$397,860	$510,226	$598,098
Operating Expenses	695,938	698,439	842,545	745,446
Equipment	1,102	1,500	2,200	11,000
Transfers (partial funding for 2.0 FTE)	96,508	102,930	104,198	106,800
Total	$1,119,788	$1,200,729	$1,459,169	$1,461,344
Fund Source				
General Fund	$96,269	$102,930	$104,198	$106,800
Federal Special	13,500	0	10,000	0
Proprietary	1,010,019	1,200,729	1,344,971	1,354,464
Total	$1,119,788	$1,303,659	$1,459,169	$1,461,264

2) Does the legislature desire to continue to fund a portion of the 2.0 FTE involved in the production of the magazine with general fund, while the Executive Budget continues to expand publications with proprietary funds? With this option, does the legislature concur with the agency's policy of each proprietary revenue source funding its own needs? Or would the legislature prefer to have a profitable segment (merchandise) of the program offset the deficiencies of the other segment (magazine)?

3) If the legislature agrees with the expansion of enterprise operations, should there be a companion goal of replacing the general fund subsidizing the magazine?

Options

1) Do not provide the general fund authority to subsidize the support for the 2.0 FTE and increase proprietary authority to fully support the 2.0 FTE.

2) Phase out the general fund authority to support the 2.0 FTE. This could be accomplished by requiring a percentage or a fixed amount of proprietary funds to replace general fund each year. Another possibility would be to completely fund 1.0 FTE with proprietary funds (a shift of funding of approximately $55,000 over the biennium).

3) Approve the Executive Budget as requested.

5117 06 Historical Society Program Proposed Budget					Historical Sites Preservation			
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	7.50	0.00	0.00	7.50	0.00	0.00	7.50	7.50
Personal Services	289,856	11,985	0	301,841	12,840	0	302,696	604,537
Operating Expenses	83,058	9,198	0	92,256	3,501	0	86,559	178,815
Equipment	16,346	3,654	9,000	29,000	3,654	9,000	29,000	58,000
Grants	118,615	131,385	0	250,000	131,385	0	250,000	500,000
Total Costs	$507,875	$156,222	$9,000	$673,097	$151,380	$9,000	$668,255	$1,341,352
General Fund	54,425	6,584	0	61,009	6,584	0	61,009	122,018
Federal Special	453,450	149,638	9,000	612,088	144,796	9,000	607,246	1,219,334
Total Funds	$507,875	$156,222	$9,000	$673,097	$151,380	$9,000	$668,255	$1,341,352

Program Description

The Historical Sites Preservation Program administers the federal Historic Preservation Act and the federal grants-in-aid for historic preservation. Staff review all proposed federally-funded projects within the state to determine their effect on properties listed or eligible for listing in the National Register of Historic Places. The office certifies historic structures and rehabilitation projects for federal tax credits authorized in the Tax Reform Act of 1976, and oversees the Montana State Antiquities Act. The program awards federal grants to local governments, private entities, and individuals in two areas: 1) the certified local government program; and 2) survey and planning. The Montana Historical Society is required by federal and state law to operate the Historic Sites Preservation Program.

Funding

The Historical Sites Preservation Program is funded approximately 9 percent general fund and 91 percent federal special revenue from the National Park Service.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 5 percent vacancy savings rate was applied in the 1997 biennium.

5117 06 Historical Society Historical Sites Preservation			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	11,985	12,840
02		Inflation/Deflation	(247)	(415)
03		Fixed Costs	9,445	3,916
		Total Statewide Adjustments	$21,183	$16,341
Significant Present Law Adjustments				
04	91001	Equipment Replacement	3,654	3,654
05	91002	Historic Preservation Grants Increase	131,385	131,385
		Total Significant PL Adjustments	$135,039	$135,039
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$156,222	$151,380

3) Fixed Costs - These are increased computer network charges, building rent, and $5,568 in fiscal 1998 for audit charges.

4) Equipment Replacement - These amounts reflect the increase from the fiscal 1996 equipment expenditures of $16,346. The budget is $20,000 each year for the replacement of computers.

5) Historic Preservation Grants Increase - This adjustment is the anticipated increase in federal National Park Service funds allowed for subgrants for historical preservation projects.

LFD Issue **- The Historical Society's preservation program expended $118,615 for subgrants in fiscal 1996. The three-year average expenditure for subgrants has been approximately $180,000. This request is a 110 percent increase over fiscal 1996 expenditures and 39 percent more than the three-year average. The agency does not have knowledge of the exact amount of federal assistance, including carry over of previous years' grants, and this request is not based upon preliminary grant award figures. Because this request does not appear to be supported by early indications of federal fund availability, the legislature may wish to make the appropriation closer to historical grant levels to avoid producing excess authority. Excess authority given for this purpose could be used for purposes other than grants. The agency could request a budget amendment if funds are higher than expected.**

Options

1) If it is the legislature intent to increase grant authority, approve the executive request; however, the legislature may wish to restrict this authority to that specific purpose.

2) Do not approve this new proposal. Provide grant authority equal to historical grant levels.

3) Approve the new proposal as requested.

5117 06
Historical Society **Historical Sites Preservation**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Plotter			9,000	9,000			9,000	9,000
Total For New Proposals			$9,000	$9,000			$9,000	$9,000

Executive New Proposals

1) Plotter - The office houses 17,500 site reports and has on file 41,000 site records. In addition they respond to 700 requests for project area information each year. Services provided to agencies and applicants for federal permits include information on the existence of historic sites in the areas where work is planned. These services can be made more effective by using computerized information and providing applicants and agencies with maps identifying sites and the nature of sites. In addition, the program's public information and research capacities can be enhanced through the production of detailed, accurate maps of sites and site densities. This equipment will speed map production and map quality, allowing improved information to be produced from the substantial databases developed on historic sites by the program.

S100-00
System Proposed Budget

Montana University System

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	3,905.33	(2.00)	0.75	3,904.08	(2.00)	1.00	3,904.33	
Office of the Commissioner of Higher Ed	$15,472,542	$693,751	$92,267	$16,258,560	$988,736	$130,371	$16,591,649	$32,850,209
Educational Units	179,593,345	17,853,947	4,561,492	202,008,789	22,182,703	8,680,136	210,456,184	412,464,968
Distance Learning			1,460,000	1,460,000		1,400,000	1,400,000	2,860,000
Community Colleges	4,869,113	(238,598)	0	4,630,515	(271,238)	0	4,597,875	9,228,390
Rural Residency	0	0	100,000	100,000	0	100,000	100,000	200,000
Agencies (AES, ES, FCES, BOM, FSTS)	18,297,502	696,881	0	18,994,383	704,971	0	19,002,473	37,996,856
Total Costs	$218,232,502	$19,005,981	$6,213,759	$243,452,247	$23,605,172	$10,310,507	$252,148,181	$495,600,423
General Fund	$107,624,051	$2,484,347	$2,202,749	$112,311,147	$3,180,494	$2,550,484	$113,355,029	$225,666,176
State/Other Special Revenue Funds	96,663,497	16,057,157	3,989,700	116,710,354	19,863,951	7,731,609	124,259,057	240,969,411
Federal Special Revenue Funds	13,002,049	421,687	21,310	13,445,046	522,811	28,414	13,553,274	26,998,320
Proprietary Funds	942,905	42,790	0	985,695	37,916	0	980,821	1,966,516
Total Funds	$218,232,502	$19,005,981	$6,213,759	$243,452,242	$23,605,172	$10,310,507	$252,148,181	$495,600,423

*Totals may not add due to rounding.

Mission Statement

The units of the Montana University System and the Office of the Commissioner of Higher Education are committed to providing well-managed, coordinated, and efficient programs of instruction, service, and research which will meet the educational needs of all Montanans and which will improve the quality of life and economic productivity of the State of Montana.

System Description

The Montana University System (MUS) is comprised of the Office of the Commissioner of Higher Education (OCHE), two consolidated universities and their affiliated campuses, three community colleges, and five service and/or research agencies. The two universities include: Montana State University with campuses in Bozeman, Havre, Billings and a college of technology in Great Falls, and the University of Montana with campuses in Missoula, Butte, and Dillon and a college of technology in Helena. The three community colleges are: Dawson Community College in Glendive, Miles Community College in Miles City, and Flathead Valley Community College in Kalispell. The five service and/or research agencies are: the Agricultural Experiment Station, the Montana Extension Service, the Forestry and Conservation Research Station, the Bureau of Mines, and the Fire Services Training School.

The budget for the MUS is divided into four sections: 1) the OCHE and the educational unit combined budget; 2) the community colleges; 3) the Rural Residency Program; and 4) the agency budgets. (To find the appropriate pages, please see the Table of Contents.)

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Agency Language

LFD Comment **- The language proposed by the executive is basically the same language contained in HB 2 approved by the 1995 legislature. LFD comments below highlight changes in intent or explain concerns.**

Included in state special revenue appropriations in item 1 is $16,799,000 in fiscal year 1998 and $17,100,000 in fiscal year 1999 from revenue generated under the provisions of 20-25-423, MCA. Revenue received by the university system under the provisions of 20-25-423, MCA, that exceeds $16,799,000 in fiscal year 1998 and $17,100,000 in fiscal year 1999 is appropriated to the board of regents and requires a reversion of a like amount to the general fund. If revenue received under the provisions of 20-25-423, MCA, is less than $16,799,000 in fiscal year 1998 and $17,100,000 in fiscal year 1999, the commissioner of higher education may request a supplemental appropriation under the procedures contained in 17-7-301, MCA, for distribution to the university system. The supplemental request for the biennium may total no more than the difference between actual revenue and the appropriation.

LFD Comment **- The executive millage estimates are higher than those estimated under Revenue Oversight Committee (ROC) criteria by $897,000 in fiscal 1998 and $980,000 in fiscal 1999. If the legislature includes the executive estimates in the budget, the potential supplemental request at the end of the 1999 biennium is $1,877,000.**

The actual fiscal 1996 millage is $235,008 higher than the appropriated millage, which was based on the ROC estimates for fiscal 1996, and it is expected to be lower than appropriations by $228,002 in fiscal 1997. Based on similar language in the 1995 general appropriations act, all millage revenue for both years is appropriated to the Board of Regents, and the $7,006 net excess must result in a like reversion to the general fund at the end of fiscal 1997.

If the legislature chooses to adjust the budget by using the ROC millage estimates rather than the executive estimates, this language must be updated to incorporate the actual revenue budgeted.

Item 1 includes $360,660 in each year of the biennium that must be transferred to the energy conservation program account and used to retire the general obligation bonds sold to fund energy improvement through the state building energy conservation program. The costs of this transfer in each year of the biennium are: university of Montana-Missoula, $203,400; Montana state university-northern, $153,000; and western Montana college of the university of Montana, $4,260.

Total audit costs are estimated to be $581,652 for the university system for the biennium. Each unit shall pay a percentage of these costs from funds other than those appropriated in item 1.

University system units are defined in 17-7-102(17), MCA. For all university system units, except the office of the commissioner of higher education, all funds (other than plant funds appropriated in [long-range planning bill], relating to long-range building, and current unrestricted operating funds) are appropriated contingent on approval of the comprehensive program budget by the board of regents by October 1 of each year. For all university system units except the community colleges, the agricultural experiment station, the forest and conservation experiment station, the cooperative extension service, the bureau of mines and geology, the fire services training school, and the distance learning and rural physician residency programs, all funds, other than funds appropriated in [long-range planning bill] for long-range building programs, are appropriated as a lump sum for the biennium, contingent upon approval of the comprehensive program budget by the board of regents by October 1 of each year. The board of regents shall allocate the appropriations to the individual units according to board policy. The budget must contain detailed revenue and expenditures and anticipated fund balances of current funds, loan funds, endowment funds, and plant funds. After the board of regents approves operating budgets, transfers between units

may be made only with the approval of the board of regents. Requests for transfer and related justification must be submitted to the office of budget and program planning and to the legislative fiscal analyst prior to approval by the board of regents. All movement of funds between the current unrestricted subfund and the designated subfund accounts must be clearly identified in the state budgeting and accounting system.

LFD Comment **- The main purpose of the above paragraph is to appropriate all university funds not included in HB 2 to the Board of Regents. Those funds include student fees, federal grants, federal financial aid, and residence hall and food service funds. This lump sum appropriation is contingent on Regent approval of operating budgets by October 1 each year.**

The biennial lump sum appropriation for the Office of the Commissioner of Higher Education (OCHE), the university units, and the colleges of technology was initiated by the 1995 legislature to facilitate management of the system. Based on constitutional authority, the Regents control the university system, but not OCHE. In appropriating the budget for OCHE in the lump sum, the legislature transfers control of that agency from itself to the Regents as well. Two consequences of that action are: 1) subject to sufficient appropriations, it becomes Regent policy rather than legislative policy whether, and to what extent, to participate in student assistance, WICHE/WAMI, work study, or any other program currently operated by OCHE; and 2) because of the biennial appropriation to OCHE and the units, the OCHE transfers all remaining general fund forward to the second year of the biennium, rather than reverting all but the 30 percent allowed other agencies. The OCHE transferred general fund of $91,863 from fiscal 1996 into fiscal 1997, rather than reverting $64,304 to the general fund and transferring $27,559 to fiscal 1997.

All university system units, except the office of the commissioner of higher education, shall account for expenditures consistently within programs and funds across all units and shall use the national center for higher education management systems program classifications structure, along with the college and university business administration (CUBA) system, as a minimum standard for achieving consistency.

LFD Comment **- The OCHE is required to account for all its agency expenditures on the Statewide Budget and Accounting System (SBAS).**

The Montana university system, except the office of the commissioner of higher education and the community colleges, shall provide electronically to the office of budget and program planning and to the legislative fiscal analyst: (1) at fiscal year-end, the actual personal services data, which must tie to the actual expenditures as recorded on SBAS; and (2) by November 1 and at fiscal year-end, the budgeted personal services data, which must tie to the operating plan for expenditure of funds appropriated in [this act] and in the pay plan as approved by the board of regents. The personal services data described in subsections (1) and (2) must include but is not limited to the following for each position number: program number, responsibility center, budgeted and actual salary and benefits, fund type, FTE position title and position type, longevity dates and increments, years of service, benefit factors, workers' compensation code, final ending hourly salary (actuals only), class code, and allocation percentage.

LFD Issue **- Language in the 1997 biennium appropriations act includes language that "actual personal services data, which must tie to the actual expenditures as recorded on SBAS..." be provided on January 1 and at fiscal year-end. The executive proposed language eliminates the requirement that personal services data be provided on January 1. If the legislature approves that change, current data will not be available during legislative sessions. While the prior fiscal year-end actual data and the budgeted personal services could be used to respond to questions, no information on the changing status of university staff could be obtained mid year.**

The general fund appropriation for the community colleges is the state share, which is 51 percent of the total current unrestricted budgets for the community colleges in fiscal year 1998 and fiscal year 1999. The total unrestricted budgets for the community colleges must be approved by the board of regents.

LFD Issue - **Language included in the 1997 biennium appropriations act did not specify that the state share was a particular percentage of the community college budgets. The executive proposal changes the language to specify the 51 percent calculated state share, as required by 20-15-312, MCA. The 51 percent clearly references how the general fund in the appropriations act is calculated, but it also references the total current unrestricted budget. If the general fund in HB 2 is 51 percent of the total current unrestricted budget, two major conflicts occur:**

1) general fund allocated from the pay plan bill would have to be matched by 49 percent local funds, whether they were needed or not, to maintain the state 51 percent share; and

2) the local colleges would ignore the 51 percent requirement and exercise their statutory right to request a voted permissive levy according to 20-15-310 through 312, MCA that would result in local funds exceeding 49 percent of the total budgets.

In order to eliminate possible appropriation and statutory conflicts, the legislature may wish to replace the narrative ..."total current unrestricted budgets"... with "budget amount per full-time equivalent student, as determined by the legislature." 20-15-312, MCA, says, "this percentage does not apply to any portion of the unrestricted budget in excess of the budget amount per full-time equivalent student, as determined by the legislature.

Total audit costs are estimated to be $64,000 for the community colleges for the biennium. The general fund appropriation for each community college provided 51 percent of the total audit cost. The remaining 49 percent of these costs must be paid from funds other than those appropriated in item 2. Audit costs for the biennium may not exceed $20,000 each for Dawson and Miles community colleges and $24,000 for Flathead Valley community college.

5100 02
Montana University System **CHE/Educational Units**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
Total Budget	195,065,463	18,548,122	4,653,759	218,267,344	23,171,863	8,810,507	227,047,833	445,315,177
General Fund	90,035,205	2,274,031	642,749	92,951,985	2,989,854	1,050,484	94,075,543	187,027,528
State/Other Special	96,110,835	15,943,819	3,989,700	116,044,354	19,750,613	7,731,609	123,593,057	239,637,411
Federal Special	8,919,423	330,272	21,310	9,271,005	431,396	28,414	9,379,233	18,650,238
Total Funds	$195,065,463	$18,548,122	$4,653,759	$218,267,344	$23,171,863	$8,810,507	$227,047,833	$445,315,177

Section Description

The single appropriation to the OCHE and the educational units of the MUS includes all state supported educational units except the community colleges. It includes state and federal programs for student financial aid, such as work study and assistance to students attending medical and professional schools not available in Montana. It also includes the federal Perkins program and the Guaranteed Student Loan program.

OCHE programs included in the single appropriation are presented first, in the order of the following program numbers:

- 01 Administration
- 02 Student Assistance
- 03 Dwight D. Eisenhower Math and Science Education
- 06 Talent Search
- 08 Perkins Vocational Education
- 12 Guaranteed Student Loan
- 13 Board of Regents
- 14 Board of Regents loan payments

The budget for the educational units follows for OCHE and includes information regarding the University of Montana, Montana State University, and their affiliated campuses.

The community colleges and the rural physicians residency program are excluded from this section. These programs follow the educational units section. See the table of contents for more information.

5100-22
Agency Proposed Budget

Office of the Commissioner of Higher Education

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec Budget Fiscal 1999	Total Exec Budget Fiscal 98-99
FTE	74.55	(2.00)	0.75	73.30	(2.00)	1.00	73.55	
Personal Services	$2,389,954	$133,056	$21,310	$2,544,320	$128,321	$28,414	$2,546,689	$5,091,009
Operating	1,961,143	473,813	0	2,434,956	557,830	0	2,518,973	4,953,929
Equipment and Intangible Assets	93,130	(33,788)	5,500	64,842	(33,788)	36,500	95,842	160,684
Local Assistance	79,000	0	0	79,000	0	0	79,000	158,000
Grants	7,838,885	414,493	65,457	8,318,835	630,242	65,457	8,534,584	16,853,419
Debt Service	3,110,430	(293,823)	0	2,816,607	(293,869)	0	2,816,561	5,633,168
Total Costs	$15,472,542	$693,751	$92,267	$16,258,560	$988,736	$130,371	$16,591,649	$32,850,209
General Fund	$6,553,114	$363,484	$70,957	$6,987,555	$557,345	$101,957	$7,212,416	$14,199,971
Federal Special Revenue Funds	8,919,428	330,267	21,310	9,271,005	431,391	28,414	9,379,233	18,650,238
Total Funds	$15,472,542	$693,751	$92,267	$16,258,560	$988,736	$130,371	$16,591,649	$32,850,209

Agency Description

The Commissioner of Higher Education is the chief administrative officer of the Montana University System (MUS). Article X, Section 9 of the Montana Constitution requires that the Board of Regents appoint the commissioner and prescribe his powers and duties. The commissioner and agency personnel are responsible for providing leadership, technical assistance, and staff support to the Board of Regents and postsecondary education agencies to enable coordination, consistent regulation and management, evaluation of policies and programs, and long-range planning. The agency provides budgetary planning and funds distribution for the postsecondary education agencies under its control, as well as administration for both state and federal student assistance programs.

5102 00
Commissioner of Higher Education

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	72.55	0.75	73.30	72.55	1.00	73.55	74.55	73.30
Personal Services	2,523,010	21,310	2,544,320	2,518,275	28,414	2,546,689	5,029,305	5,091,009
Operating Expenses	2,434,956	0	2,434,956	2,518,973	0	2,518,973	4,714,148	4,953,929
Equipment	59,342	5,500	64,842	59,342	36,500	95,842	248,983	160,684
Local Assistance	4,709,515	0	4,709,515	4,676,875	0	4,676,875	10,008,856	9,386,390
Grants	8,253,378	65,457	8,318,835	8,469,127	65,457	8,534,584	15,716,257	16,853,419
Transfers	2,717,764	100,000	2,817,764	2,717,764	100,000	2,817,764	325,728,586	5,635,528
Debt Service	98,843	0	98,843	98,797	0	98,797	208,547	197,640
Total Costs	$20,796,808	$192,267	$20,989,075	$21,059,153	$230,371	$21,289,524	$361,654,682	$42,278,599
General Fund	11,547,113	170,957	11,718,070	11,708,334	201,957	11,910,291	221,395,015	23,628,360
State/Other Special	0	0	0	0	0	0	120,879,068	0
Federal Special	9,249,695	21,310	9,271,005	9,350,819	28,414	9,379,233	19,380,599	18,650,239
Total Funds	$20,796,808	$192,267	$20,989,075	$21,059,153	$230,371	$21,289,524	$361,654,682	$42,278,599

5102 01
Commissioner of Higher Education **Administration Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	15.40	0.00	0.00	15.40	0.00	0.00	15.40	15.40
Personal Services	755,487	69,533	0	825,020	70,192	0	825,679	1,650,699
Operating Expenses	246,910	1,591	0	248,501	(21,325)	0	225,585	474,086
Equipment	16,714	(2,122)	5,500	20,092	(2,122)	36,500	51,092	71,184
Total Costs	$1,019,111	$69,002	$5,500	$1,093,613	$46,745	$36,500	$1,102,356	$2,195,969
General Fund	1,019,111	69,002	5,500	1,093,613	46,745	36,500	1,102,356	2,195,969
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	$1,019,111	$69,002	$5,500	$1,093,613	$46,745	$36,500	$1,102,356	$2,195,969

Program Description

The Administration program includes the Commissioner of Higher Education and personnel to assist the commissioner in securing implementation of Board of Regents' policy and establishing administrative regulations in: 1) general administration of the university system; 2) academic, financial, and legal administration; 3) labor relations and personnel administration; and 4) student assistance administration.

Funding

The administration program is funded with general fund.

Executive Present Law

5102 01
Commissioner of Higher Education Present Law Adjustments/Issues
Administration Program

Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	69,533	70,192
02	Inflation/Deflation	(2,448)	(3,080)
03	Fixed Costs	(2,874)	(26,146)
	Total Statewide Adjustments	$64,211	$40,966
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$4,791	$5,779
	Grand Total Present Law Adjustments	$69,002	$46,745

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The Office of the Commissioner of Higher Education salaries are set by the Board of Regents.

LFD Comment **- The Executive Budget includes the fiscal 1996 level of 15.40 FTE. During the 1997 biennium the commissioner deleted 1.75 FTE budgeted at approximately $150,000 and added 1.75 FTE budgeted at over $60,500, for a net salary and benefits reduction of approximately $89,500. However, a portion of that savings was offset by approximately $28,000 salaries and benefits paid to exempt employees in excess of the pay plan, as shown in Table 1. The additional salary increases approximate the increases received by the faculty under the collaborative agreements negotiated during the 1997 biennium.**

Table 1
Administratively Increased Personal Services
Fiscal 1996 to Fiscal 1998

Calculation	Salaries
Exempt Salaries Budgeted FY 98/99	$518,152
Exempt Salaries Appropriated FY 96/97	$465,652
Estimated Pay Plan @ 2.5% & 3.5%	28,405
Total Annualized Salaries Appropriated	$494,057
Budgeted Salary Increase Over Appropriated	$24,095
Benefits at 15%	3,614
Administratively Increased Personal Services	$27,710

The Executive Budget: 1) includes the OCHE FTE and salary adjustments; 2) includes salaries and annualized pay plan for all FTE authorized for fiscal 1997; and 3) reduces the personal services through the imposition of a 3 percent vacancy savings rate of approximately $25,500 each year.

5102 01
Commissioner of Higher Education **Administration Program**
Executive Budget New Proposals

	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Student Records System		5,500		5,500		36,500		36,500
Total For New Proposals		$5,500		$5,500		$36,500		$36,500

Executive New Proposals

1) Student Records System - As discussed in the Post Secondary Education Committee, the university system has no centralized student records system to track students in the MUS. This new proposal is the hardware and Oracle database for the proposed student record system. It will be used to track intrastate transfers of students and credit limits of individual students to enforce the caps established by the regents. It will also be available to provide centralized information on student records.

LFD Comment **- The Executive Budget includes $42,000 for the biennium for a student records system. Agency documentation detail shows that $32,000 is for a computer, while the remainder of the request is for software and training. Agency personnel do not anticipate additional development costs at this time, but they do anticipate ongoing maintenance costs of $8,000 to $10,000 per year in following biennia.**

5102 02
Commissioner of Higher Education — Student Assistance Program
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Local Assistance	79,000	0	0	79,000	0	0	79,000	158,000
Grants	5,336,669	290,971	65,457	5,693,097	507,178	65,457	5,909,304	11,602,401
Total Costs	$5,415,669	$290,971	$65,457	$5,772,097	$507,178	$65,457	$5,988,304	$11,760,401
General Fund	5,241,093	290,971	65,457	5,597,521	507,178	65,457	5,813,728	11,411,249
Federal Special	174,576	0	0	174,576	0	0	174,576	349,152
Total Funds	$5,415,669	$290,971	$65,457	$5,772,097	$507,178	$65,457	$5,988,304	$11,760,401

Program Description

The Student Assistance Program consists of: the Western Interstate Commission on Higher Education (WICHE) Student Exchange Program which provides educational opportunities for Montana students in the fields of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, public health, occupational therapy, and podiatry; the Washington, Wyoming, Alaska, Montana, Idaho (W2AMI) Program, a cooperative agreement with the University of Washington School of Medicine providing medical education opportunities; the Minnesota Dental Program, a cooperative agreement with the University of Minnesota School of Dentistry providing dental education opportunities; the State Student Incentive Grant (SSIG) Program which provides grant funds to needy students; the Carl Perkins Loan Fund (formerly NDSL) providing funds to students with the post-secondary; the state matching dollars for the federal Supplemental Educational Opportunity Grant (SEOG); and the state's share of the Montana Work Study Program (Title 20, Chapter 25, part 7, MCA).

Under Chapter 26 of Title 20, MCA, the Commissioner of Higher Education is responsible for the administration of the resident student financial assistance program. The Western Regional Higher Education Compact is authorized under 20-25-801 through 806, MCA. This Compact allows reciprocal agreements with member states for the enrollment of students.

Funding

Funding for the student assistance programs is provided by both state general fund and federal funds. WICHE/W2AMI and Minnesota Dental are funded by state general fund monies. The Carl Perkins Loan Fund and SEOG programs are funded with 75 percent federal funding on the campus and 25 percent state general fund. SSIG is 50 percent federal funding and 50 percent state general fund. Work Study is 70 percent state general fund and 30 percent employer match, with the employer being responsible for any applicable student benefits.

LFD Issue **- SSIG requires that, at a minimum, the state match federal funds dollar for dollar. However, in fiscal 1996 and prior years, state funds were budgeted at $220,000 and almost completely expended, while federal funds fell short of that amount. In fiscal 1996, the state funds expended were $219,763 and federal funds were $174,575, a $45,188 difference. The state share was therefore 55.7 percent. The Executive Budget includes both state and federal funds at fiscal 1996 actual expenditures for the 1999 biennium, resulting in a continuation of the 55.7 percent state share. The legislature may wish to reduce the general fund by $45,188 each year so that the state does not exceed the required 50 percent minimum.**

State and federal funding for student aid programs for fiscal 1996 and each year of the 1999 biennium is shown in Table 2.

Table 2
Student Aid Programs
1999 Biennium

Program	Actual FY 1996	Executive Budget FY 1998	Executive Budget FY 1999	Difference FY 96-98
Interstate Assistance				
WICHE Dues	$79,000	$81,000	$83,000	$2,000
WICHE Assistance	1,268,299	1,153,533	1,243,767	(114,766)
WAMI	2,296,586	2,497,560	2,590,020	200,974
Minnesota Dentistry	69,500	85,800	100,100	16,300
Total	$3,713,385	$3,817,893	$4,016,887	$104,508
Student Aid Programs				
SSIG	$394,338	$394,338	$394,338	$0
Perkins Loans	270,000	270,000	270,000	0
SEOG	386,117	386,117	386,117	0
State Work Study	651,829	838,292	855,505	186,463
Total	$1,702,284	$1,888,747	$1,905,960	$186,463
Funding				
General Fund	$5,241,094	$5,532,065	$5,748,272	$290,971
Federal SSIG	174,575	174,575	174,575	0
Total	$5,415,669	$5,706,640	$5,922,847	$0

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. The numbered adjustments in the table correspond to the narrative descriptions.

4) Work Study - Increases in the state spending for the College Work Study program are the result of increases in the number of students projected to be in the system in the next biennium and the increase in the minimum wage. The increase in the number of students beyond fiscal 1996 levels is expected to be 6.3 percent in fiscal 1998 and 8.6 percent in fiscal 1999. This is funded with

5102 02
Commissioner of Higher Education
Student Assistance Program

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	0	0
02	Inflation/Deflation	0	0
03	Fixed Costs	0	0
	Total Statewide Adjustments	$0	$0
Significant Present Law Adjustments			
04	Work Study	186,463	203,676
05	WICHE/WAMI	104,508	303,502
	Total Significant PL Adjustments	$290,971	$507,178
Other Base Adjustments			
	Grand Total Present Law Adjustments	$290,971	$507,178

general fund.

LFD Issue **- The executive included work study funds based on the MUS enrollment estimates for the 1999 biennium (see Present Law Enrollment Adjustment issue). If the work study funds are recalculated based on an adjusted enrollment estimate (which reduces the Executive Budget by 747 FTE in fiscal 1998 and 987 FTE in fiscal 1999), work study funds needed are $890,045 in fiscal 1998 and $900,375 in fiscal 1999. The adjustments would reduce the executive present law work study increases by $25,661 in fiscal 1998 and $34,202 in fiscal 1999. If the legislature reduces the FTE estimate, it may wish to reduce the work study appropriation as well.**

5) WICHE\W2AMI - Increases due to tuition increases in the WICHE program and cost increases in the W2AMI program. This is funded with general fund.

LFD Issue **- When the OCHE was included in the MUS lump sum for the 1997 biennium, it became the responsibility of the Regents rather than the legislature to allocate by profession the number of students who would be accepted for WICHE/W2AMI funding. However, the Regents maintained approximately the 313 positions that were previously allocated by the legislature.**

For the 1999 biennium, the executive includes the MUS estimate of 130 students in the WICHE program and 173 in the W2AMI/Minnesota Dental programs. The reduction to 303 students, which is 10 fewer than the 313 projected for the 1997 biennium, is primarily the result of fewer continuing students in veterinary medicine. The number of continuing veterinary students is reduced because the 1993 and 1995 legislatures reduced the number of students accepted for the program. The MUS proposal for interstate student assistance included in the Executive Budget is shown in Table 3.

Table 3
Interstate Student Assistance Programs
1999 Biennium

	Fiscal 1998						Fiscal 1999					
	Cost per	—New—		—Continuing—		Total	Cost per	—New—		—Continuing—		Total
Program	Slot	Students	Cost	Students	Cost	Cost	Slot	Students	Cost	Students	Cost	Cost
WICHE												
Administrative Dues						$81,000						$83,000
Student Assistance												
Medicine	$22,800	6	$136,800	17	$387,600	$524,400	$22,800	6	$136,800	18	$410,400	$547,200
Dentistry	14,300	1	14,300	3	42,900	57,200	14,300	1	14,300	3	42,900	57,200
Optometry	8,800	1	8,800	3	26,400	35,200	9,100	1	9,100	2	18,200	27,300
Public Health*	5,000	1	5,000	2	8,333	13,333	5,200	1	5,200	1	5,200	10,400
Osteopathic Medicine	13,000	2	26,000	1	13,000	39,000	13,400	1	13,400	3	40,200	53,600
Veterinary	19,900	7	139,300	15	298,500	437,800	19,900	7	139,300	19	378,100	517,400
Occupational Therapy**	7,200	1	7,200	2	19,200	26,400	7,400	1	7,400	1	9,867	17,267
Podiatry	9,100	1	9,100	1	9,100	18,200	9,400	0	0	1	9,400	9,400
Subtotal		20	$346,500	44	$805,033	$1,232,533		18	$325,500	48	$914,267	$1,322,767
Minnesota Dentistry	$14,300	2	$28,600	4	$57,200	$85,800	$14,300	2	$28,600	5	$71,500	$100,100
WAMI Medicine	41,626	20	0	60	2,497,560	2,497,560	43,167	20	0	60	2,590,020	2,590,020
Total		42	$375,100	108	$3,359,793	$3,815,893		40	$354,100	113	$3,575,787	$4,012,887

* One continuing student in extended degree program at $3,133 in fiscal 1998
** Continuing cost per slot calculated as 1.33 of the support fee to include clinical rotation

The executive included WICHE general fund of $2,000 in fiscal 1998 and $4,000 in fiscal 1999 more than the agency requested. This difference appears to be the result of including increases in WICHE dues twice. The legislature may wish to reduce the budget by $2,000 in fiscal 1998 and $4,000 in fiscal 1999.

$102 02 Commissioner of Higher Education Executive Budget New Proposals					Student Assistance Program			
	Fiscal 1998				Fiscal 1999			
New Proposal Description	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
01 Financial Aid Program		65,457		65,457		65,457		65,457
Total For New Proposals		$65,457		$65,457		$65,457		$65,457

Executive New Proposals

1) Financial Aid Program - Given the recent rise of tuition and other student expenses, the Governor recommends the Montana Tuition Assistance Program (MTAP) be initiated this biennium.

The Montana Tuition Assistance Program was developed by the Commissioner's Task Force on Financial Aid Reform and recommends that the state address the financial aid needs of students with several measures including a grant program, MTAP. The grant program would address the following problems of the current financial aid system: a) an incentive which encourages federal Pell Grant recipients not to work; b) the excessive loan burden of students; and c) the difficulty of lower-middle class students to receive enough financial aid. MTAP will provide $500 grants each year to working students from families with lower and lower-middle incomes. The resident tuition rate has increased an average of $750 since fiscal 1992. The $500 grant will offset 66 percent of the tuition increase for lower-income, working, students. The program fits into current administration and will not require additional administrative structures.

For more information on the current status of financial aid in Montana and the proposed grant program please refer to "MEETING THE CHALLENGE: Helping Montana Students Finance College" a document published by the Commissioner of Higher Education.

It is recommended that this program be funded with administrative savings generated from the reduction of central control. This reduction in central control is comprised of several bills in the current legislative session and some savings that were negotiated by the system in the areas of audit and workers' compensation. Also included to help fund this program is language that allows funds not needed to fund the SSIG match program to be used in this grant program. SSIG is a federal/state student aid program that may require less funding than that recommended by the executive budget due to federal reductions. It is uncertain at this time how much revenue will be available to fund this program in this biennium.

Executive Language Recommendation

"If the Montana Tuition Assistance Program is signed into law, the following sources may be used for the program's funding: 1) remaining general fund available after funding the number of qualified students allocated in the WICHE, W2AMI, and Minnesota Dental programs; 2) any amount over the federal match requirements for state student incentive grants and less than the $220,000 per year appropriated; and 3) savings generated from administrative efficiencies."

LFD Issues - This new proposal includes no new funds to support the program. The funding shown for the proposal comes entirely from a reduction of $65,457 per year in legislative audit costs negotiated by the university system (see Reduction in Audit Costs in the Present Law Adjustment section for the MUS). If legislation is passed and approved that allows administrative savings, the legislature may choose to: 1) reduce budgets by the amount of any savings that might result from passage of legislation; or 2) allocate the savings at its discretion.

As noted previously, the SSIG program budget contains $45,188 general fund each year more than would be necessary to meet the requirement of a 50/50 match for federal funds, even without further federal reductions.

Three additional issues with this proposal are: 1) full implementation; 2) the need for the program; and 3) the possible need for additional language if the proposal is adopted.

1) Full Implementation - According to the CHE publication Meeting the Challenge, eligibility would be determined by: a) adding $500 per student to the federal Pell grant award; and b) subtracting other public gift aid. Eligible students would be those who are either eligible or marginally ineligible for Pell grants, whose expected family contribution (to the student's education) is less than $5,000, and whose annual earned income exceeds $2,500. The report notes that fully implementing this program in Montana's university system would require $2.29 million annually. Only $65,457 of that amount is identified in the new proposal.

2) Need for Program - The Joint Postsecondary Education Committee on Policy and Budget (PEPB) examined the trends in tuition compared to the trends in student loans. That committee found that: a) tuition increased primarily because state support declined; and b) while tuition increased over $750 between fiscal 1992 and fiscal 1997, average student loans for the 50 percent of students who borrow increased from $2,726 to $5,586 between fiscal 1992 and fiscal 1996. The $2,860 increase in the average loan more than offset the $1,900 increase in tuition, fees, and board and room charged to those students. Students are clearly incurring debt for more than the increased cost of obtaining education. The legislature may wish to consider whether to use state funds to offset tuition increases at the same time that students are incurring nearly $1,000 more annual debt than needed to pay for the total increases in tuition, fees, and board and room.

3) Additional Language - The MTAP program proposed in Meeting the Challenge, page F-3, suggests that all eligibility criteria be subject to adjustment by the Board of Regents. If the legislature approves the tuition assistance program, it may wish to include similar language so that eligibility can be adjusted, depending on the amount of funds available.

5102 03
Commissioner of Higher Education — **DDE Mathematics & Scientific Education Act**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	2.00	(2.00)	0.00	0.00	(2.00)	0.00	0.00	0.00
Personal Services	1,528	187	0	1,715	187	0	1,715	3,430
Operating Expenses	481	269	0	750	269	0	750	1,500
Grants	189,008	25,745	0	214,753	25,745	0	214,753	429,506
Total Costs	$191,017	$26,201	$0	$217,218	$26,201	$0	$217,218	$434,436
Federal Special	191,017	26,201	0	217,218	26,201	0	217,218	434,436
Total Funds	$191,017	$26,201	$0	$217,218	$26,201	$0	$217,218	$434,436

Program Description

The federal Dwight D. Eisenhower Math and Science Education Act of 1988 provides funds to be used to upgrade the teaching skills of teachers in the mathematics and science disciplines. Grants are awarded, on a competitive basis, to all institutions of higher education and other nonprofit organizations within the state (e.g., museums, libraries, educational television stations, and public and private nonprofit organizations with demonstrated experience in improving elementary and secondary mathematics and science instruction). The Office of the Commissioner of Higher Education awards grants that address Montana's priority needs for mathematics and science education as determined by the state plan. Priorities for the grants are: 1) in-service training for elementary, secondary, and technical school teachers to improve their teaching skills in the fields of mathematics and science; 2) retraining teachers who are currently teaching without proper certification in mathematics and science; 3) retraining teachers who are currently teaching in other disciplines so they will specialize in teaching mathematics and science; and 4) traineeship programs for new teachers who will specialize in mathematics and science.

Funding

Dwight D. Eisenhower Math and Science grants are funded with federal grants.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. The numbered adjustments in the table correspond to the narrative descriptions.

Other Base Adjustments - The increases are due to increased federal grants.

5102 03
Commissioner of Higher Education — Present Law Adjustments/Issues
DDE Mathematics & Scientific Education Act

Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	187	187
02	Inflation/Deflation	0	0
03	Fixed Costs	0	0
	Total Statewide Adjustments	$187	$187
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$26,014	$26,014
	Grand Total Present Law Adjustments	$26,201	$26,201

5102 06
Commissioner of Higher Education — **Talent Search**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	10.95	0.00	0.00	10.95	0.00	0.00	10.95	10.95
Personal Services	338,871	11,959	0	350,830	11,959	0	350,830	701,660
Operating Expenses	156,080	16,937	0	173,017	51,525	0	207,605	380,622
Equipment	5,619	(119)	0	5,500	(119)	0	5,500	11,000
Total Costs	$500,570	$28,777	$0	$529,347	$63,365	$0	$563,935	$1,093,282
General Fund	92,884	546	0	93,430	504	0	93,388	186,817
Federal Special	407,686	28,231	0	435,917	62,861	0	470,547	906,465
Total Funds	$500,570	$28,777	$0	$529,347	$63,365	$0	$563,935	$1,093,282

Program Description

Talent Search is primarily a federally funded program to provide career and financial aid counseling to students who are either low-income, physically handicapped, or culturally deprived. The program's objectives are to decrease the high school dropout rate in targeted high schools and to increase enrollment of disadvantaged students in Montana's post-secondary institutions.

Funding

The Talent Search program includes general fund for an American Indian/Minority Achievement program and federal Talent Search funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Other Base Adjustments - The increases in the talent search program are the result of an expected increase in federal funding.

5102 06
Commissioner of Higher Education — Present Law Adjustments/Issues
Talent Search

Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	11,959	11,959
02	Inflation/Deflation	(47)	(128)
03	Fixed Costs	0	0
	Total Statewide Adjustments	$11,912	$11,831
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$16,865	$51,534
	Grand Total Present Law Adjustments	$28,777	$63,365

LFD Issue - **The Executive Budget increases the federal funds by 6.9 percent in fiscal 1998 and 8 percent in fiscal 1999. However, the most recent federal grant award notification estimates fiscal 1998 funds at $425,694. Assuming that the fiscal 1999 federal funds are approximately equal to the fiscal 1998 federal estimate, the Executive Budget includes approximately $10,000 in fiscal 1998 and $45,000 in fiscal 1999 more federal funds than will actually be received.**

5102 08
Commissioner of Higher Education — C.D. Perkins Administration
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	3.00	0.00	0.75	3.75	0.00	1.00	4.00	3.75
Personal Services	116,941	(5,756)	21,310	132,495	(12,329)	28,414	133,026	265,521
Operating Expenses	48,309	44,507	0	92,816	44,378	0	92,687	185,503
Equipment	64	8,186	0	8,250	8,186	0	8,250	16,500
Grants	2,313,208	97,777	0	2,410,985	97,319	0	2,410,527	4,821,512
Transfers	3,002,488	(284,724)	0	2,717,764	(284,724)	0	2,717,764	5,435,528
Total Costs	$5,481,010	($140,010)	$21,310	$5,362,310	($147,170)	$28,414	$5,362,254	$10,724,564
General Fund	73,807	6,193	0	80,000	6,193	0	80,000	160,000
Federal Special	5,407,203	(146,203)	21,310	5,282,310	(153,363)	28,414	5,282,254	10,564,564
Total Funds	$5,481,010	($140,010)	$21,310	$5,362,310	($147,170)	$28,414	$5,362,254	$10,724,564

Program Description

The Board of Regents is designated as the sole state agency for Carl D. Perkins Vocational Education Act funds, which support vocational education at the secondary and post-secondary level. Administration of these funds includes provision of technical assistance to the field, grants management, performance reviews, filing of an annual performance report, and the development and submission of a state plan for the use of the funds. The Board of Regents is required by state statute to contract with the Office of Public Instruction for provision of technical assistance and grants management for secondary level grant sub-recipients.

Funding

Administration of this program is funded with a combination of: 1) $80,000 federal Carl Perkins vocational education administration funds granted under the authority of Public Law 101-392, which describes the requirements for state program participation; and 2) the required 50 percent general fund match of $80,000 each year. Of the total administration funds, $60,000 must be expended for gender equity activities. Grants to the postsecondary institutions and transfers to OPI for secondary institutions grants are funded entirely with Carl Perkins funds.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Other Base Adjustments - Decreases in this program are the result of less carry forward

5102 08
Commissioner of Higher Education
C.D. Perkins Administration

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(5,756)	(12,329)
02	Inflation/Deflation	415	275
03	Fixed Costs	106	117
	Total Statewide Adjustments	($5,235)	($11,937)
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		($134,775)	($135,233)
	Grand Total Present Law Adjustments	($140,010)	($147,170)

amounts and reduced federal funding.

LFD Comment - **The reduction is primarily due to adjustments in school-to-work and reduced Carl Perkins grants. For a further discussion of school-to-work, see the LFD issue on the school-to-work new proposal that follows.**

5102 08
Commissioner of Higher Education **C.D. Perkins Administration**
Executive Budget New Proposals

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 School-To-Work FTE	0.75		21,310	21,310	1.00		28,414	28,414
Total For New Proposals	0.75		$21,310	$21,310	1.00		$28,414	$28,414

Executive New Proposals

1) School-to-Work - The additional FTE was initially funded in fiscal 1996 with a budget amendment. This position is contingent on continued federal funding.

LFD Comment - **The School-to-Work program is a federally funded program including work and school based learning and connecting activities to allow students to broaden their education, career, and economic opportunities. The program is designed to integrate academic and vocational education. As discussed below, the federal grant is used for administration in OCHE and grants to school districts to provide students the opportunities needed for a smoother transition from school to work.**

LFD Issue - **The Executive Budget new proposal includes only the personal services portion of the School-to-Work total funds of $187,440 in fiscal 1998 and $186,982 in fiscal 1999. The program was initiated by budget amendment in fiscal 1994, with continuing authority in fiscal 1995. The program was not considered by the 1995 legislature or the interim Legislative Finance Committee because OCHE used surplus spending authority in the C.D. Perkins program for the 1997 biennium rather than re-submitting the budget amendment. The expenditures were therefore included in the fiscal 1996 base budget. The executive: 1) separated the 0.75 FTE and personal services into a new proposal because the FTE had never been authorized; and 2) included operating costs and grants in the present law adjustment because the expenditures were not identified as a budget amendment in fiscal 1996.**

5102 12
Commissioner of Higher Education — **Guaranteed Student Loan Program**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	43.20	0.00	0.00	43.20	0.00	0.00	43.20	43.20
Personal Services	1,171,477	55,433	0	1,226,910	56,612	0	1,228,089	2,454,999
Operating Expenses	1,494,862	404,464	0	1,899,326	476,938	0	1,971,800	3,871,126
Equipment	70,733	(39,733)	0	31,000	(39,733)	0	31,000	62,000
Debt Service	1,874	1,874	0	3,748	1,875	0	3,749	7,497
Total Costs	$2,738,946	$422,038	$0	$3,160,984	$495,692	$0	$3,234,638	$6,395,622
General Fund	0	0	0	0	0	0	0	0
Federal Special	2,738,946	422,038	0	3,160,984	495,692	0	3,234,638	6,395,622
Total Funds	$2,738,946	$422,038	$0	$3,160,984	$495,692	$0	$3,234,638	$6,395,622

Program Description

The 1979 legislature authorized the Montana Guaranteed Student Loan Program (MGSLP) placing it under the supervision of the Board of Regents. MGSLP is established and assigned duties under 20-26-1101 through 1111, MCA. The program also operates under regulations and mandates found in federal Title IV of the Higher Education Act of 1965, as amended. The agency guarantees and disburses loan funds provided by private lenders to students attending eligible post-secondary educational institutions; provides a toll-free number for students, borrowers, and the general public to inquire about their student loan or to obtain financial aid information; assists schools and lenders in preventing borrower default; purchases defaulted loans from participating lenders; collects the outstanding principle due from borrowers who have defaulted on their loans; and provides training, technical assistance, and program oversight to schools and lenders.

Funding

MGSLP is funded with a combination of federal and private revenue for the loan services it provides.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

4) USAG Contract Increase - Costs are the result of renewing Montana's contract with the United Student Aid Group for mainframe processing of loan applications, software compliance services, and implementation of a loan data system.

5102 12
Commissioner of Higher Education — Present Law Adjustments/Issues
Guaranteed Student Loan Program

Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	55,433	56,612
02		Inflation/Deflation	(5,372)	(6,067)
03		Fixed Costs	3,973	(3,036)
		Total Statewide Adjustments	$54,034	$47,509
Significant Present Law Adjustments				
04	91002	U S A F Contract Increase	183,000	218,000
05	91003	Collection Improvements	123,000	165,000
06	91004	Postage Enhancement	50,000	50,000
07	91005	S S C R Membership Increase	12,000	12,000
		Total Significant PL Adjustments	$368,000	$445,000
Other Base Adjustments			$4	$3,183
		Grand Total Present Law Adjustments	$422,038	$495,692

5) Collection Improvements - MGSLP will be integrating enhanced computerized collection software for a total biennial cost of $120,000. The software will allow MGSLP to meet new due diligence requirements. In addition, bad debt write-offs of $63,000 in fiscal 1998 and $105,000 in fiscal 1999 will be incurred to achieve greater collection efficiency.

6) Postage Enhancement - In order to take advantage of efficiencies provided by improved electronic information sharing, MGSLP will assume the responsibility of mailing promissory notes directly to students. The cost increase noted represents the costs associated with mailing promissory notes.

7) SSCR Membership - This increase represents the cost associated with MGSLP participating in the Student Status Conference Report (SSCR). SSCR is a national database which tracks student borrowers across states.

5102 13
Commissioner of Higher Education — Board of Regents-Administration
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Personal Services	5,650	1,700	0	7,350	1,700	0	7,350	14,700
Operating Expenses	14,501	6,045	0	20,546	6,045	0	20,546	41,092
Total Costs	$20,151	$7,745	$0	$27,896	$7,745	$0	$27,896	$55,792
General Fund	20,151	7,745	0	27,896	7,745	0	27,896	55,792
Total Funds	$20,151	$7,745	$0	$27,896	$7,745	$0	$27,896	$55,792

Program Description

Article X, Section 9 of the Montana Constitution places the government and control of the Montana University System in the Board of Regents of higher education, which has full power, responsibility, and authority to supervise, coordinate, manage, and control that system. In addition, the board supervises and coordinates other public educational institutions assigned by law. The Board of Regents is created by Article X, Section 9 of the Montana Constitution. 20-25-301, MCA, describes the powers and duties of the Board of Regents.

Funding

The Board of Regents program is funded with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Other Base Adjustments - The increase over the base is the result of an unusually low cost year in fiscal 1996. The Regents traveled less than in a regular year due to family illnesses and schedule conflicts.

5102 13
Commissioner of Higher Education
Board of Regents-Administration

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	1,700	1,700
02	Inflation/Deflation	0	0
03	Fixed Costs	0	0
	Total Statewide Adjustments	$1,700	$1,700
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$6,045	$6,045
	Grand Total Present Law Adjustments	$7,745	$7,745

LFD Comment - **Regents expenditures were $24,582 in fiscal 1995 and $33,050 in fiscal 1994.**

5102 14 Commissioner of Higher Education Program Proposed Budget				Board of Regents Bond Payments				
Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Debt Service	106,068	(10,973)	0	95,095	(11,020)	0	95,048	190,143
Total Costs	$106,068	($10,973)	$0	$95,095	($11,020)	$0	$95,048	$190,143
General Fund	106,068	(10,973)	0	95,095	(11,020)	0	95,048	190,143
Total Funds	$106,068	($10,973)	$0	$95,095	($11,020)	$0	$95,048	$190,143

Program Description

The Board of Regents is authorized in 20-16-108, MCA, to lease or purchase any building, land, and/or property at a vocational-technical center (now a college of technology) from the respective school districts. The Board acquired the facilities in Helena and Missoula and entered into contracts with the school districts in Billings and Butte to retire the districts' bonded indebtedness. This program contains the bond payments to the Billings school district. Indebtedness on the College of Technology in Butte has been assumed by the State beginning in the 1995 biennium and payments are made through the Department of Administration. The bonds for the College of Technology in Great Falls were retired in fiscal 1995. The bond payments are required under bond indentures issued and assumed by the State when Vocational Technical Centers were brought under state control.

Funding

The Board of Regents bond payment program is funded with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. The numbered adjustments in the table correspond to the narrative descriptions.

Other Base Adjustments - Decrease reflects reduction in scheduled bond payments for the College of Technology in Billings. Note that the last bond payment for the colleges of technology is January 1999.

5102 14 Commissioner of Higher Education Board of Regents Bond Payments		Present Law Adjustments/Issues	
Present Law Description		Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	0	0
02	Inflation/Deflation	0	0
03	Fixed Costs	0	0
	Total Statewide Adjustments	$0	$0
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		($10,973)	($11,020)
	Grand Total Present Law Adjustments	($10,973)	($11,020)

5100-12
Agency Proposed Budget

Educational Units

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	3,428.82	0.00	0.00	3,428.82	0.00	0.00	3,428.82	
Personal Services	$136,285,393	$5,261,521	$4,128,566	$145,675,480	$5,375,943	$7,802,298	$149,463,634	$295,139,114
Operating Expenses	36,360,970	2,259,252		38,620,222	1,906,409		38,267,379	76,887,601
Equipment and Intangible Assets	5,716,198	186,290		5,902,488	152,054		5,868,252	11,770,740
Capital Outlay	446,512	(161)		446,351	(161)		446,351	892,702
Debt Service	784,278	(13,462)		770,816	(13,462)		770,816	1,541,632
Transfers	0	10,160,507	432,926	10,593,433	14,761,915	877,838	15,639,753	26,233,186
Total Costs	$179,593,351	$17,853,947	$4,561,492	$202,008,790	$22,182,698	$8,680,136	$210,456,185	$412,464,975
General Fund	$83,482,090	$1,910,548	$571,792	$85,964,431	$2,432,510	$948,527	$86,863,128	$172,827,559
Millage	15,079,000	1,720,000	0	16,799,000	2,021,000		17,100,000	33,899,000
Tuition	80,319,748	14,223,824	3,989,700	98,533,271	17,729,613	7,731,609	105,780,969	204,314,240
Other	712,513	(425)		712,088	(425)		712,088	1,424,176
Total Funds	$179,593,351	$17,853,947	$4,561,492	$202,008,790	$22,182,698	$8,680,136	$210,456,185	$412,464,975

Program Description

Educational units are considered together for funding purposes. The 1995 legislature funded Office of the Commissioner of Higher Education and the universities in one lump. The educational units section of this lump is presented here. There is little reference to individual units because the recommendation is for the Regents to set priorities and allocate funds for all campuses. Each campus is required to account for revenue and expenditure according to the College and University Business Administrators (CUBA) fund structure. Included in this structure and in campus activity are the following programs:

CUBA Program Structure

1) Instruction provides educational activities directed primarily at the production of credits which satisfy the various curricula requirements leading toward a post-secondary degree or certificate. The category also includes expenditures for academic administration where the primary assignment is administration (department chairs).

2) Research includes all funds expended for activities specifically organized for research purposes and commissioned either by an agency outside of the institution or separately budgeted by an organizational unit within the institution.

3) Public Service assists the community and state in community planning and development, professional certification, natural resources, business, education, agriculture, industry, health and recreation. This program includes all funds budgeted specifically for extension and public service and expended for activities established primarily to provide non-instructional services to groups outside the institution. Such activities include seminars, projects, and support of various organizations established to provide services to the community.

4) Academic Support includes the retention, preservation and display of materials and the provision of services that directly assist the academic functions of the institution. This category includes libraries, museums and galleries, audio/visual services, academic administration and personnel development, and course and curriculum development.

5) Student Services includes admissions, registrar activities, counseling and career guidance, financial aid, athletics, student admissions and records.

6) Institutional Support includes the operational support for the day-to-day functioning of the institution, including executive and fiscal management, general administrative services, logistical services, and community relations.

7) Operation and Maintenance includes all expenditures of current funds for the operation and maintenance of the physical plant, except for amounts charged to auxiliary enterprises. It does not include expenditures made from the institutional plant fund accounts. It includes all expenditures for operations established to provide services and maintenance related to campus grounds and facilities, utilities, property insurance, fire protection, and similar items.

8) Fee Waivers include expenditures for mandatory and discretionary fee waivers (similar to scholarships).

Funding

The funding of the educational units is also reported in the CUBA structure. All state appropriated funds in this lump in HB 2 are part of current unrestricted funds, except those funds dispersed through OCHE. Other funds such as state appropriated funds for buildings are included in plant funds. The residency program through Montana State University is provided with current restricted funds. The following summarizes the CUBA fund structure.

CUBA Fund Structure

Current Unrestricted **- The traditional state appropriated general operating funds which include general fund, millage, tuition, and other funds.**

Current Designated **- Funds which have been restricted by the Regents or the campus for a specific purpose. Examples include recharge centers like the computer center, student fees for specific purposes like the activity fee, and indirect cost recoveries.**

Current Restricted **- Funds which are restricted to purposes specified by sources external to the Regents. Examples include federal grants and contracts, federal financial aid and state grants.**

Auxiliary Enterprises (current) **- Funds dedicated to providing on campus services. Examples include residence halls, food services and bookstores.**

Loan Funds **- Funds available for loans primarily to students. Examples include the Perkins federal loan fund or campus short-term loan funds.**

Endowment Funds **- Funds received from a donor with restrictions on the principal. Most of the MUS endowments are managed by the foundations.**

Plant Funds **- Funds used for the acquisition of long-term assets, for renewal or replacement of campus properties, for debt service payments, or to account for the cost of long-lived assets. Examples include equipment and building fees.**

The current unrestricted funding of the educational units is comprised of general fund, the six mill levy for operation of the university system, tuition and other smaller items such as reimbursement for financial aid administration, library fines, and certain land grant funds.

The educational units of the MUS account for revenues and expenditures in SBAS within the CUBA funding and expenditure structure. The budget presented here is the current unrestricted budget which has expenditures in all eight of the programs listed previously.

LFD Comment - For a detailed explanation of general fund, millage and tuition, see the "Funding" section in the "LFD Budget Issues" narrative below. This section provides: 1) funding trends from fiscal 1992 to 1996; 2) the relative contribution of the funding sources; and 3) a short summary of the state funds included in the 1999 biennium Executive Budget. The "Present Law Enrollment Adjustment" section, which follows the "Funding" section of the LFD Budget Issues narrative, provides a detailed explanation of the executive resident enrollment adjustment that resulted in general fund increases. This section also provides options to the executive approach.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD Comment - The executive discusses adjustments 4-7 as a group, followed by individual discussions of adjustments 8-12. Table 1 shows the proposed funding for the executive present law adjustments.

5100-02
Montana University System
Educational Units

Present Law Description		Present Law Base Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	$2,110,789	$2,179,211
02 & 03	Inflation/Deflation and Fixed Costs	1,543,995	996,311
	Total Statewide Adjustments	$3,654,784	$3,175,522
Significant Present Law Adjustments			
04	Enrollment Adjustment 4 Yr Resident	$3,769,651	$5,529,079
05	Enrollment Adjusment 2 Yr Resident	430,006	716,676
06	Enrollment Adjustment 4 Yr Non-resid	2,876,541	3,960,280
07	Enrollment Adjustment 2 Yr Resident	398,826	482,451
08	Summitnet	60,000	60,000
09	Reduction in Audit costs	(65,457)	(65,457)
10	Maintenance New Space Fiscal 1997	591,157	591,157
11	Maintenance New Space Fiscal 1999	124,100	318,941
12	Faculty Agreements	5,841,672	7,275,668
	Total Significant Present Law Adjustments	$14,026,496	$18,868,795
Other Base Adjustments		$172,667	$138,381
	Total Present Law Adjustments	$17,853,947	$22,182,698

Table 1
General Fund and Tuition Funding
Significant Executive Present Law Adjustments

	Fiscal 1998 General Fund	Fiscal 1998 Tuition	Fiscal 1999 General Fund	Fiscal 1999 Tuition
Enrollment Adjustments				
4) Resident - 4 year campuses	$1,817,938	$1,951,713	$2,666,433	$2,862,646
5) Resident - 2 year campuses	221,822	208,184	369,703	346,973
6) Non-resident - 4 year campuses		2,876,541		3,960,280
7) Non-resident - 2 year campuses		398,826		482,451
Other Significant Adjustments				
8) Summitnet	$32,645	$27,355	$32,645	$27,355
9) Reduction in Audit Costs	(65,457)		(65,457)	
10,11) Maintenance-New Buildings	389,155	326,102	495,164	414,934
12) Faculty Agreements	0	5,841,672	0	7,275,668
Total Significant Present Law Adjustments	$2,396,103	$11,630,393	$3,498,488	$15,370,307

Enrollment Adjustments

4) Resident Enrollment Adjustment - Four Year Campuses
5) Resident Enrollment Adjustment - Two Year Campuses
6) Non-resident Enrollment Adjustment - Four Year Campuses
7) Non-resident Enrollment Adjustment - Two Year Campuses

The present law increased expenditure for enrollments is the result of an increase in the projected number of students. The amount of the increase is based on two factors: 1) the incremental increase in the projected number of students; and 2) the incremental cost of education. The increased costs are considered for three of the programs listed previously, namely instruction, student services, and fee waivers.

Incremental Enrollment Adjustments

The incremental increase in the number of students is calculated by subtracting the budgeted enrollments for the MUS for the 1997 biennium from the projected enrollment of the 1999 biennium. The adjustment is calculated for the whole university system and not for individual campuses because the appropriation is made for the MUS and not to each campus.

LFD Comment **- For an analysis of the executive enrollment adjustments, see the "Present Law Enrollment Adjustment" section in the "LFD Budget Issues" narrative below.**

Table 2
Executive Present Law Base
Enrollment Adjustments

Type of Adjustment	Resident Adjustment/student	Non-resident Adjustment/student
Instruction - 4 year	$3,426	$3,426
Instruction - 2 year	2,799	2,799
Student Services	230	230
Fee Waivers - 4 year	202	372
Fee Waivers - 2 year	156	187
Total adjustment - 4 year	$3,858	$4,029
Total adjustment - 2 year	$3,185	$3,216

The incremental cost of education recognizes the cost of providing services for increased numbers of students. The estimates for the per student incremental cost of education have been calculated by OBPP and are described below. See Table 2 for system-wide average adjustments and Table 3 for total cost and funding calculations.

Instruction - The average costs of $3,426 for four-year school students and $2,799 for two-year school students are the fiscal 1996 average, budgeted, instructional cost per fiscal year FTE student. The instructional cost is not expected to have decreasing costs per student and it is assumed that the average cost is not significantly different than the marginal cost.

Student Services - The average cost of $230 per student is the fiscal 1996 average, budgeted, personal services expenditure per fiscal year FTE student of MSU and UM student services (without athletics). It is expected that the marginal cost of serving each student is less than the average cost per student. The above personal services average cost is expected to estimate the marginal cost of student services.

Fee Waivers - The educational units' fiscal 1996 actual percentage of tuition and fees waived were: 9.7 percent for resident students and 6.4 percent for non-resident students. These percentages were multiplied by the 1997 tuition rates to determine the incremental cost of fee waivers for both residents and non-resident students. See Table 1 for specific values.

The total marginal cost per student is the sum of the three above adjustments. Table 2 summarizes this information. The marginal cost for each resident student totals $3,858 for four year schools and $3,185 for two year schools. The marginal cost for each non-resident student is $4,029 for four year schools and $3,216 for two year schools. To determine the total expenditure adjustment, these average costs are multiplied by the projected number of students over the fiscal 1996 budgeted number of students. (See Table 3)

Funding

Resident Students - General fund, millage, and resident student tuition fund the present law base, resident enrollment adjustments. Tuition is used first to pay for the incremental cost of education, followed by general fund and millage, calculated above as "state funds." Tuition's contribution is reduced by 4.1 percent to fund the faculty agreements. The 4.1 percent reduction allows for fiscal 1997 tuition rates, which are dedicated to the agreements, to continue to provide funding for the agreements.

Table 3
Calculation of State Funds and Tuition Funding Enrollment Adjustment for the 1999 Biennium

Type of student	FYFTE Over 96 Base Budget	Average Tuition for Adjustment	Average State Funds	Tuition for Enrollment Adjustment	Total State Funds
Resident					
4 year	2,410	$1,998	$1,861	$4,814,360	$4,484,371
2 year	360	1,542	1,643	555,157	591,525
Non-Resident	0				
4 year	1,697	$4,029	$0	$6,836,820	$0
2 year	274	3,216	0	881,277	0

The resident student tuition is determined by the average tuition paid per student fiscal year FTE in fiscal 1996 adjusted for tuition increases in fiscal 1997. The calculated tuition rates are $2,083 per 4 year fiscal year FTE and $1,608 per college of technology fiscal year FTE. The remaining funding for resident enrollment is general fund.

LFD Comment **- As noted above, the average tuition of $2,083 per four-year FTE is reduced by 4.1 percent to $1,998, which is the tuition share of the $3,858 marginal cost per resident. The difference between the $3,858 marginal cost and $1,998 tuition is the state funds of $1,861 added to the Executive Budget for each additional**

four-year resident, as shown in Table 3. The same procedure is used for calculating the state funds of $1,542 per additional two-year resident FTE (see the "General Fund and Tuition Reversions" section in the "LFD Budget Issues" narrative below).

Non-Resident Students - No general fund is used to fund non-resident enrollment. Present Law Base (PLB) non-resident tuition funds the non-resident enrollment adjustment. PLB non-resident tuition in excess of that necessary to fund the enrollment adjustment and other PLB items will fund the system PLB Agreement Requirements. See Table 2 for details.

Other Present Law Adjustments

8) Summitnet - Summitnet costs have increased due to a Department of Administration requested rate increase.

LFD Comment **- Summitnet is the state's telecommunications infrastructure. It is maintained by the Information Services Division of the Department of Administration under the policy direction of the Summitnet Executive Council. Proprietary funding is through use charges, such as those paid by the university system.**

9) Reduction in Audit Costs - Audit costs have been reduced throughout most state agencies, resulting in significant cost savings for the Montana University System.

LFD Comment **- During the 1997 interim, each campus organized an Administrative Services Review Task Force to examine the campus operation and recommend procedures to operate more efficiently and effectively. The Montana University System negotiated with the Legislative Auditor, who agreed to provide services to the reorganized university system campuses at a 25 percent lower cost. The resulting general fund savings is $130,914 for the biennium. Savings in other university funds are over $50,000.**

10) Maintenance of New Buildings in Fiscal 1997 - The legislature approved the construction of the Gallagher building on the University of Montana - Missoula campus and the Engineering and Physical Sciences building on the Montana State University - Bozeman. The full operating costs were not included in fiscal 1996, the base year, since the buildings were not operational for most of fiscal 1996. This present law base adjustment adds funding to fully fund the operating costs of the buildings.

11) Maintenance of New Buildings in Fiscal 1999 - The legislature approved the construction of the Agricultural Bioscience complex on the Montana State University - Bozeman campus. This present law base adjustment allows for moving expenses in fiscal 1998 and 75 percent of the operating costs of the building in fiscal 1999. The present law base does not fully fund the operational costs of the building due to the commitment of Montana State university - Bozeman to the legislature to fund at least 25 percent of the operating costs of the buildings with non-state appropriated funds.

12) Faculty Agreements - The Governor endorsed collaborative agreements with six of the university campuses over the past two years. The agreements call for additional funding of faculty salaries and other instructional improvements over six years conditioned upon the campuses achieving certain quality or quantity measures. For more information on the progress of the agreements please see the agreements section (Section 1) under executive new proposals.

Present law base adjustments include those items in the faculty agreements that were implemented during or before fiscal 1997. Each campus agreement included salary items for faculty and may also contain other instructional improvement items such as additional library books or equipment.

The present law base adjustments are constrained by the level of tuition revenue available at fiscal 1997 rates and fiscal 1998 and fiscal 1999 enrollments. Tuition projections indicate the revenue will be available to fund these adjustments.

LFD Comment **- For detailed information on Instruction Program funding, see the "Allocation of Funds for Instruction" section in the "LFD Budget Issues" narrative below. This narrative discusses the allocation of funds for instruction, including additional tuition needed to fund the faculty agreements.**

LFD Issue **- The Executive Budget base includes recorded operating expenses for fiscal 1996. However, that base includes expenditures accrued in fiscal 1996 that were not actually paid by October, 1996. As a result, the base is inflated by $404,886 at MSU-Bozeman, $44,638 at Montana Tech-UM, and $254,000 at MSU-Billings. The inflated base results in an Executive Budget that is inflated by $703,524 each year of the 1999 biennium. If the legislature wishes to reduce the budget to compensate for the inflated base, it would reduce the budget by $351,763 general fund and $351,762 tuition each year of the biennium, assuming a 50/50 general fund/tuition fund split.**

5100-02
Executive Budget New Proposals

EDUCATIONAL UNITS

	Fiscal 1998			Fiscal 1999		
New Proposal Description	FTE	General Fund	Total Funds	FTE	General Fund	Total Funds
01 Faculty Agreements		$377,478	$4,128,566		$555,694	$7,802,298
02 Fee Waivers		194,314	432,926		392,833	877,838
Total For New Proposals		$571,791	$4,561,492		$948,527	$8,680,136

Executive New Proposals

1) Faculty Agreements - The Governor endorsed collaborative agreements with six of the university campuses over the past two years. The agreements call for additional funding of faculty salaries and other instructional improvements over six years, conditioned upon campuses achieving certain quality or quantity measures. The agreements and the current status of the quality and quantity measures have been thoroughly reviewed by the Governor and his staff. Each measure that has a requirement to be completed by the fall of 1997 has been reviewed. Overall, the efforts on the campuses have been exceptional.

For additional information and a detailed listing of the measures and the results, please ask for a copy of the budget office summary of the faculty agreement status in the Governor's budget office, Room 236.

The Governor notes that proposed increases within the collaborative agreements are subject to tuition revenue being available for funding. In addition, the Board of Regents will ensure that the commitments in the agreements have been fulfilled before granting final approval for funding.

The new proposal adjustment will be the difference between fiscal 1997 budgeted amounts and the fiscal 1998 or fiscal 1999 amounts as reported in the agreements. In order to provide the level of general fund assumed in the agreements, a small amount of general fund beyond the pay plan is necessary for faculty salaries. The remainder of agreement items in fiscal 1998

and 1999 must be funded with tuition.

LFD Comment - **The reports from the units show progress in increased carrying load per student, increased credit hours of teaching per faculty member, and decreased student/faculty ratios in some cases. The university reports also show somewhat less success in resource enhancements and faculty salary increases, particularly in MT Tech of the University of Montana, Western Montana College of the University of Montana, and MSU-Northern where enrollment, and therefore revenue, was less than projected. In addition, MSU-Bozeman reports "less progress has been achieved towards fulfilling the goals that relate to access to undergraduate education, enhancement of the quality and availability of advising, and rewarding and developing teaching excellence."**

The legislature may wish to request a standard format for reporting progress in specific areas so that it will have objective accountability measures necessary to answer questions concerning cost and quality. A standard reporting form may include items such as student/faculty ratio, credit hours taught per faculty member, hours advising students, increases in library funding, length of time required for a student to receive a degree, and quality of graduate as determined by surveys of jobs acquired in field or pass rates on professional exams. Items on such a form could be designed to aid legislators in making higher education policy and funding decisions. For additional information, see the 1997 interim reports on accountability measures presented to the Joint Committee on Postsecondary Education Policy and Budget, available in the offices of the LFD.

LFD Issue - **The executive participated in the negotiated agreements on each campus. These agreements assumed that general fund would provide a 2.5 percent faculty salary increase each year, while tuition would fund approximately 4 percent, the remaining portion of the increases on each campus. The Executive Budget contains state employee pay plan increases of 1.5 percent each year, plus increases in insurance. Since the pay plan falls short of the amount assumed in the negotiated agreements, the Executive Budget includes additional general fund of $377,478 in fiscal 1998 and $555,694 in fiscal 1999 to honor the 2.5 percent agreements.**

The legislature is not required to fund administratively increased salaries for any state employees, including university faculty. If the legislature chooses not to fund the increases requested in addition to the pay plan, the Regents may still honor the agreements by funding all increases above the pay plan with tuition. The Executive Budget includes a 6 percent annual increase in tuition, which the executive estimates will generate $2.7 million in fiscal 1998 and $4.1 million in fiscal 1999 more than requested by OCHE for the present law budget.

2) Fee Waivers - Spending on fee waivers will increase due to projected tuition increases to be approved by the Board of Regents.

3) Reduced Central Control - The Governor supports the proposal that cost savings generated from these administrative savings should be allocated to the Montana Tuition Assistance Program (MTAP). The Governor does not support the use of interest earnings that are an offset to general fund to be used for the MTAP.

LFD Comment - **This proposal is discussed in more detail as a new proposal in the Student Assistance program in OCHE. This proposal is not included in the New Proposal table in the units because the executive has not identified specific amounts of funds to be saved in administration and re-allocated to the Montana Tuition**

Assistance Program. The executive is anticipating action by the legislature on legislation to exempt the university system from state regulations such as those on purchasing, printing, and surplus property. The new proposal entitles these proposed statute changes, "reduced central control," and requests that any savings be retained in the university system for tuition assistance.

4) Technology Bonds - The Governor recommends that the MUS be appropriated $7 million bonding authority within the technology bonding bill being offered to the legislature. It is recommended that half of the bond payments be made with general fund and half from other funds within the MUS.

LFD Comment - This proposal is not included in the New Proposal table because it would not be implemented in the general appropriations act. It includes $3.5 million for each branch of the university system for personal computers, systems software, and networking. The projects vary from a system-wide administrative information system to instructional and academic computing. The bond payments would be funded by 50 percent general fund and 50 percent other funds. Other funds could include tuition, student fees, and intra-campus charges for various services. This proposal will be part of the technology bonding bill that will be heard by the Long-Range Planning Subcommittee.

Executive Language Recommendation - "This appropriation is for distance learning. $60,000 of this appropriation is for payment to the Western Governors' Association for development of a virtual university."

LFD Comment - At the Western Governors' Association annual meeting in June, 1996, the 10 governors of Arizona, Colorado, Idaho, Nebraska, New Mexico, North Dakota, Oregon, Utah, Washington, and Wyoming unanimously adopted an implementation plan for the Western Governors University (WGU). Montana agreed to participate in July and paid $40,000 of the $100,000 requested as an initial commitment, $10,000 for the Governor's budget and $30,000 from the MUS. The $60,000 request for the WGU in fiscal 1998 is to complete the initial commitment of $100,000 per state participating in the program.

The following narrative presents the LFD budget issues referenced earlier in this section.

LFD Budget Issues

The 1995 legislature appropriated funds for the university units (units), the colleges of technology (colleges), and the Office of the Commissioner of Higher Education (OCHE) in a biennial "lump sum," giving the Board of Regents (Regents) full authority to manage the funding for the entire system during both years of the biennium. The Executive Budget for the 1999 biennium assumes continuation of the lump sum appropriation. Issues pertinent to the Regents' allocation of funds for the university system and enrollment management are discussed here, while issues relevant to OCHE are discussed in the section detailing all programs in the Commissioner's Office.

The purpose of this section is to discuss: 1) total university system funding, including state funds and tuition; 2) enrollment, including the present law adjustment and ratios of resident to non-resident full-time equivalent students (FTE); 3) general fund and tuition reversions resulting from differences between estimated and actual enrollment; and 4) allocation of funds for instruction, including comparisons to total funds, tuition, and FTE.

Funding

The major higher education funding sources are state general fund, the statewide 6 mill levy for the six four-year units, the five county mill levies for the colleges, and student tuition and fees. Total funding for higher education in Montana increased by 15.5 percent from $156.3 million in fiscal year 1992 to $180.5 million in fiscal year 1996, as shown in Table 4. The increase in that period is the result of: 1) approximately 12 percent inflation, as measured by the consumer price index; and 2) a 5 percent increase in enrollment in the six units and the five colleges. The net result is that total funding per postsecondary FTE increased by approximately 10 percent from fiscal 1992 to 1996, a rate somewhat less than the rate of inflation.

Table 4
Resident & Non-Resident Funding
Fiscal 1992 through Estimated Fiscal 1999

Unit	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY92-96 $ Change	FY92-96 % Change	Estimated FY 1997	Estimated FY 1998	Estimated FY 1999
System Funding										
General Fund	$101,369,094	$95,367,156	$86,384,082	$85,170,567	$83,472,385	($17,896,709)	-17.65%	$87,966,179	$87,489,485	$88,328,198
Mill Levy	12,852,005	14,744,261	17,848,631	13,957,022	15,079,000	2,226,995	17.33%	13,840,000	16,799,000	17,100,000
Tuition & Fees	41,294,879	54,641,916	60,053,111	69,383,329	80,929,189	39,634,310	95.98%	91,730,236	98,533,668	105,781,355
Other	773,938	779,084	821,731	724,676	1,042,088	268,150	34.65%	731,686	712,088	712,088
Total System Funding	$156,289,916	$165,532,417	$165,107,555	$169,235,594	$180,522,662	$24,232,746	15.50%	$194,268,101	$203,534,241	$211,921,641
Total Instruction	82,914,766	88,304,882	89,853,185	91,103,781	97,220,919	14,306,153	17.25%	106,747,228	114,669,422	121,881,793
Instruction % of Funding	53.05%	53.35%	54 42%	53.83%	53.86%	NA	NA	54.95%	56.34%	57.51%
GF+Mills/Tuition	2.77	2.02	1.74	1.43	1.22	NA	NA	1.11	1.06	1.00
GF+Mills/Resident FTE	$4,718	$4,611	$4,350	$4,205	$4,184	($534)	-11.33%	$4,243	$4,165	$4,120
Total Funds/Student	5,416	5,630	5,547	5,665	5,955	539	9.95%	6,288	6,239	6,333
Tuition/Resident Need	$698	$1,019	$1,197	$1,459	$1,771	$1,073	153.82%	$2,045	$2,075	$2,213
Unit Tuit./15 Credits****	1,017	1,288	1,358	1,572	1,717	700	68.83%	1,801	1,909	2,024
COT Tuit./15 Credits****	804	1,078	1,148	1,316	1,460	656	81.59%	1,532	1,624	1,721

* Totals may not add due to rounding
**Includes 3 Techs in FY96 and FY97
***Tuition includes scholarships and fellowships in all years
****Undergraduate average rates charged for 15 credits

The relative contribution of funding sources varied over the fiscal 1992 to 1996 period, as shown in Table 4. General fund appropriations decreased by $17.9 million, the statewide and county mill levies increased by $2.2 million due to increases in taxable valuation, and student tuition increases raised an additional $39.6 million in the same period.

Table 4 also shows that the Executive Budget for the 1999 biennium includes general fund equal to approximately the fiscal 1997 level. However, the executive anticipates mill levy revenue will exceed the fiscal 1997 revenue by approximately $3.0 million in fiscal 1998 and $3.3 million in fiscal 1999. These estimates exceed estimates developed using Revenue Oversight Committee (ROC) criteria by $897,000 in fiscal 1998 and $980,000 in fiscal 1999.

If the legislature accepts the ROC criteria, it may wish to reduce the budgeted mill levy revenue and compensate for the difference by taking one of the following actions.

Options Dealing with Millage Revenue Estimate

1) reduce the budget by $897,000 in fiscal 1998 and $980,000 in fiscal 1999;

2) increase general fund by $897,000 in fiscal 1998 and $980,000 in fiscal 1999; or

3) increase tuition by $897,000 in fiscal 1998 and $980,000 in fiscal 1999.

Action on the millage revenue will also affect proposed language: 1) requiring a general fund reversion if actual revenue exceeds estimates; and 2) allowing the Commissioner of Higher Education to request a supplemental general fund appropriation if actual millage revenues fall short of the estimates.

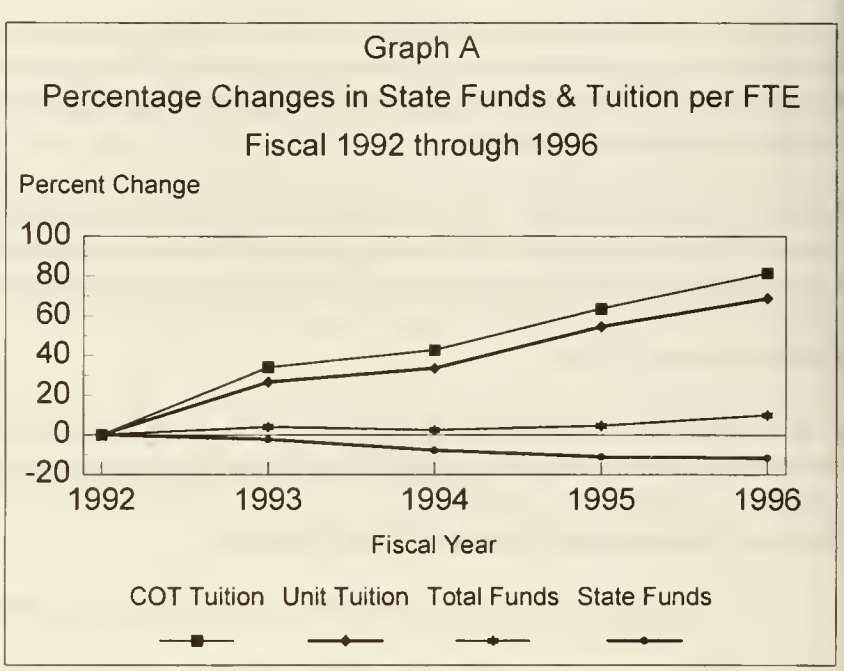
The following paragraphs: 1) analyze the changes in state funds; 2) discuss the changes in tuition; and 3) discuss the per-student funding impact of the Executive Budget.

State Funding

The combination of general fund and millage is the state support for Montana resident students. As shown in Graph A and Table 4, these combined sources declined by approximately 11 percent per resident FTE student from $4,718 in fiscal 1992 to $4,184 in 1996. The $59 estimated increase in state funds per FTE from fiscal 1996 to fiscal 1997 is primarily the result of pay plan increases offset by slightly higher resident enrollment estimates. Fiscal 1998 and 1999 decreases are the result of incremental state funds increases for the increased enrollment (see "Executive Budget" below).

The decrease in millage in fiscal 1997 is the result of legislative action to de-earmark county-wide mill levies for the colleges. The 1995 legislature decided to deposit college of technology mill levy revenue in the general fund and offset the revenue loss by appropriating an equal amount of general fund to the colleges. Fiscal 1997 is the first year of implementation, resulting in an increase in general fund and a decrease in mill levy revenue of approximately $1 million.

Student Tuition



The difference between state funds and the total cost of education is, of course, provided primarily by student tuition, half of which was paid by resident students in fiscal 1996. The tuition rates for all units and categories of students are set by the Regents. As shown in the graph, the Regents increased tuition per resident FTE at the four-year university units (units) by 69 percent from $1,017 in fiscal 1992 to $1,717 in fiscal 1996. Tuition for FTE in the colleges was increased by 82 percent in the same period, somewhat faster than that at the six units because of relative changes in tuition as a percentage of total funds. In fiscal 1992, tuition at the colleges was 16 percent of the total funds per resident student, compared to 19 percent at the four-year units. By fiscal 1996, resident tuition in both the two-year and four-year units was over 27 percent of the total funds per resident student.

The tuition increases offset state general fund reductions and 83 percent of the inflationary increase (10 percent increase in funding per FTE vs a 12 percent inflationary increase) during the fiscal 1992 through 1996 period. The dollar amount of funds available per FTE increased by $539, from $5,416 in fiscal 1992 to $5,955 in fiscal 1996, but, had the increase kept pace with inflation, the fiscal 1996 funds available per FTE would have been $6,066. The estimated decline in buying power was approximately $110 per FTE. At least partially as a response to cost and revenue pressure, the Regents implemented admissions standards, eliminated some marginal programs, began discussing quality/access/cost issues, and started collaborative negotiations on each campus to increase productivity, efficiency, and quality. The collaborative agreements were completed during the 1997 biennium and the budgetary impact is discussed below in the faculty salary section.

The Regents increased non-resident tuition more rapidly than it increased resident tuition. Average non-resident undergraduate tuition at the six four-year campuses increased by 82 percent, from $3,384 in fiscal 1992 to $6,163 in fiscal 1996. As a result, the university system moved from a position of subsidizing non-residents to one where non-resident tuition is subsidizing resident FTE. As illustrated in Table 4, the total funds per student exceeded the state funds by only $698 per resident FTE in fiscal 1992. This "need" for resident tuition (the difference between state support and total support per student), when compared with actual tuition of $1,017, shows that resident tuition and/or state funds were subsidizing non-residents by $319 in fiscal 1992. The subsidy is reversed in fiscal 1997. In the current year the estimated need for $2,070 of resident tuition exceeds the $1,801 actual tuition by $269 per FTE, indicating that non-resident tuition provides part of the support for resident FTE.

The tuition calculations are based on: 1) the estimated numbers of resident and non-resident students who are enrolled; and 2) the estimated tuition needed to pay for the cost of education. Since residents are funded

by both state funds and tuition, the resident tuition rates may vary according to the amount of state funds budgeted and the subsidy from non-resident tuition. Non-resident tuition is set by the Regents to pay for the full cost of education or more.

Undergraduate tuition from fiscal 1992 through that estimated for 1999 is shown in Table 5. Average resident tuition increases by 99 percent or approximately $1,000 during the period, while non-resident tuition increases by nearly 115 percent or approximately $3,500. The Executive Budget includes 6 percent average annual increases for all students, including undergraduate increases of approximately $108 in fiscal 1998 and $115 in fiscal 1999 for residents and $365 in fiscal 1998 and $387 in fiscal 1999 for non-residents, as shown in the table. These increases result in total tuition revenue estimates of $98.5 million in fiscal 1998 and $105.8 million in fiscal 1999, as shown in Table 4.

Table 5
Annual Tuition
Fiscal 1992 through Fiscal 1999 - 15 Undergraduate Credits per Term

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998*	FY 1999*
			— Resident Tuition —			
Six Units**	$1,358	$1,572	$1,717	$1,801	$1,909	$2,024
% Change Six Units	33.53%	54.55%	68.87%	77.12%	87.75%	99.01%
Year to Year $ Increase	$70	$214	$146	$84	$108	$115
UM-Missoula	$1,358	$1,548	$1,731	$1,822	$1,932	$2,047
MT Tech-UM	1,358	1,576	1,795	1,892	2,006	2,126
WMC-UM	1,358	1,576	1,703	1,745	1,850	1,961
MSU-Bozeman	1,358	1,576	1,711	1,831	1,941	2,058
MSU Billings	1,358	1,576	1,708	1,778	1,885	1,998
MSU Northern	1,358	1,576	1,656	1,739	1,843	1,954
			— Non-Resident Tuition —			
Six Units**	$5,082	$5,380	$5,779	$6,091	$6,457	$6,844
% Change Six Units	59.36%	68.70%	81.21%	91.01%	102.47%	114.61%
Year to Year $ Increase	$364	$298	$399	$312	$365	$387
UM-Missoula	5,250	5,524	5,829	6,131	6,499	6,889
MT Tech-UM	5,250	5,552	6,152	6,452	6,840	7,250
WMC-UM	4,914	5,216	5,434	5,665	6,004	6,365
MSU-Bozeman	5,250	5,552	6,045	6,468	6,856	7,267
MSU Billings	4,914	5,216	5,636	5,865	6,216	6,589
MSU Northern	4,914	5,216	5,576	5,967	6,325	6,704

* At UM four-year campuses, FY 96 through FY 99 rates are average of lower & upper division
** FY95 through FY99 are average rates for the six four-year campuses - $60 registration fee not included
In prior years, all residents at the six units paid the same tuition

Executive Budget

The Executive Budget extends the trends noted between fiscal 1992 and fiscal 1996. It includes fiscal 1996 base funds of approximately $4,200 per resident student FTE, plus incremental general fund of $1,861 for four-year students and $1,643 for two-year students for each of 1,112 additional FTE in fiscal 1998 and 1,658 additional

FTE in fiscal 1999 (see Enrollment Present Law Adjustment issue below). If the legislature approves the Executive Budget base of $98.6 million general fund and millage plus incremental present law enrollment adjustments of $2.0 million state funds in fiscal 1998 and $3.0 million in fiscal 1999, state funds per estimated resident FTE will decrease to approximately $4,120 per FTE in fiscal year 1999, as shown in Table 4. Funding the estimated increase at the base rate of $4,200 per resident would require additional general fund of $4.7 million in fiscal 1998 and $6.9 million in fiscal 1999, rather than the smaller increases in the Executive Budget.

Enrollment

Two issues related to enrollment are: 1) the present law enrollment adjustment included in the Executive Budget; and 2) the ratios of resident and non-resident FTE to total enrollment.

Present Law Enrollment Adjustment

The Executive Budget proposes a present law adjustment from the fiscal 1996 budget and budgeted FTE of $2,039,760 general fund for 1,112 more resident FTE in fiscal 1998 and $3,036,136 general fund for 1,658 more FTE in fiscal 1999. Two partially offsetting issues with the adjustment as presented are: 1) a technical issue dealing with the base used for calculation; and 2) policy issues concerning: a) the portion of the adjustment that should be considered a new proposal, rather than present law; and b) policy changes included and excluded from the adjustment. The issue of the base calculation is presented first, followed by a discussion of the policy issues. Options for legislative action on both the base calculation and policy issues are included at the end of this section.

Table 6
Comparison of Executive Base
to Actual Base FTE & $/FTE

	Units	Colleges	Total
Executive Base FY96 FTE	21,210	2,720	23,930
Actual Base FTE	21,062	2,494	23,556
Difference in FTE	148	226	374
Exec. FY98-99 GF Increment/FTE	$1,861	$1,643	NA
Act. FY98-99 GF Increment/FTE	1,785	1,769	NA
Difference in GF Increment/FTE	$76	($126)	NA
Executive FTE Estimates FY98	22,187	2,855	25,042
Executive FTE Estimates FY99	22,643	2,945	25,588
Executive FTE Increase over Base - FY98	977	135	1,112
Executive FTE Increase over Base - FY99	1,433	225	1,658
Total FTE Difference	2,410	360	2,770
Actual FTE Increase over Base - FY98	1,125	361	1,486
Actual FTE Increase over Base - FY99	1,581	451	2,032
Total FTE Difference	2,706	812	3,518

Base Used for Calculation

The Executive Budget present law adjustment is calculated from the fiscal 1996 estimated FTE budgeted instruction and other costs, rather than from the actual fiscal 1996 enrollment and base expenditures. The executive FTE base is 374 FTE higher than the actual base, and the calculated incremental costs per FTE are $76 higher for units and $126 lower for colleges than actually occurred in fiscal 1996, as shown in Table 6.

Table 6 also shows that the Executive Budget present law adjustment includes 2,770

additional FTE for the biennium, although the biennium estimates are really 3,518 greater than the actual enrollment in fiscal 1996.

The executive 1999 biennium expenditure base is composed of actual fiscal 1996 expenditures and total salaries for all staff positions, adjusted on a statewide basis for inflation and annualization of the pay plan. It is designed, as are all other agency bases, to illustrate the total funds needed to provide 1999 biennium services at the same level as were provided in fiscal 1996. In the case of the MUS, the base is to provide the same services to the same number of students who were enrolled in fiscal 1996. Therefore, it appears that the fiscal 1996 actual costs and FTE are the proper base from which to calculate budget increases due to enrollment increases. When the present law base is reduced to actual fiscal 1996 base, the present law adjustment increases by $644,169 each year, as shown in Table 7.

Table 7
Executive Present Law Adjustment Calculation
vs Present Law Adjustment Using Actual Base

	FY 98	FY 99	Biennium
Executive Calculation		---- General Fund ----	
Executive GF - Unit FTE x Increase/FTE	$1,817,938	$2,666,433	$4,484,371
Executive GF - College FTE x Increase/FTE	221,822	$369,703	591,525
Total Executive Present Law Adjustment	$2,039,760	$3,036,136	$5,075,896
Calculation from Actual Base			
Actual Base GF - Unit FTE x Increase/FTE	$2,008,125	$2,822,085	$4,830,210
Actual Base GF - College FTE x Increase/FTE	638,609	797,819	1,436,428
Total Actual Present Law Adjustment	$2,646,734	$3,619,904	$6,266,638
Actual PLA over Executive PLA	$606,974	$583,768	$1,190,742
Executive Calculation		---- Tuition ----	
Executive Tuition - Unit FTE x Increase/FTE	$1,951,713	$2,862,647	$4,814,360
Executive Tuition - College FTE x Increase/FTE	208,184	346,973	555,157
Total Executive Present Law Adjustment	$2,159,897	$3,209,620	$5,369,517
Calculation from Actual Base			
Actual Base Tuition - Unit FTE x Increase/FTE	$2,247,366	$3,158,300	$5,405,667
Actual Base Tuition-College FTE x Increase/FTE	556,700	695,489	1,252,188
Total Actual Tuition Present Law Adjustment	$2,804,066	$3,853,789	$6,657,855
Actual PLA over Executive PLA	$644,169	$644,169	$1,288,338

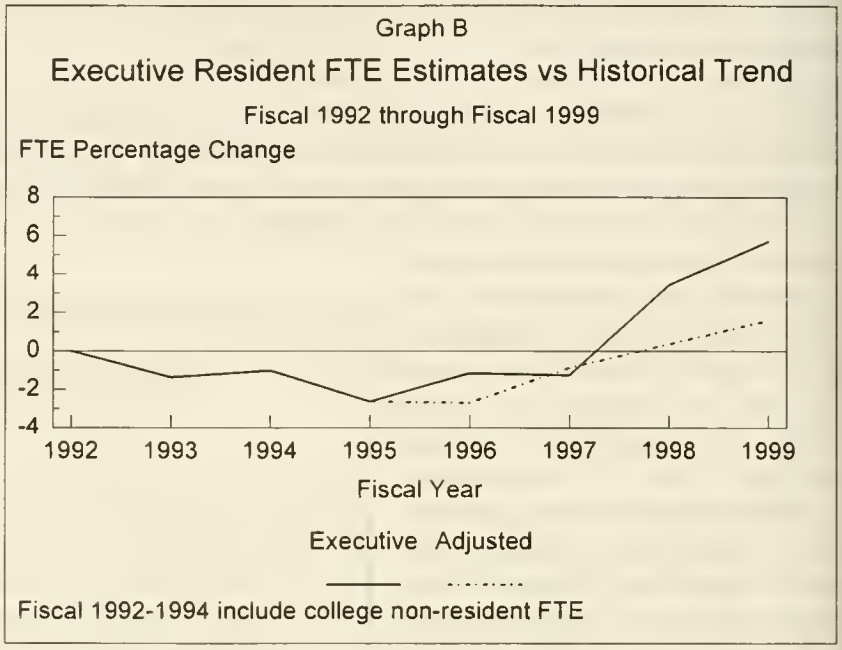
Graph B, which is shown below, illustrates the fiscal 1996 base difference as that difference between the executive base shown as the solid line and the actual enrollment shown by the dashed line. If the legislature wishes to fund the total number of resident FTE estimated in the Executive Budget for the 1999 biennium, the present law adjustment should be $1,190,742 general fund and $1,288,338 resident tuition higher that the executive present law adjustment, as shown in Table 7.

Present Law Adjustment May Include New Proposals

Aside from the issue of the fiscal 1996 base, as noted above, there are two policy concerns with the present law adjustment: 1) the adjustment appears to include new proposals resulting in FTE increases; and 2) the adjustment appears to exclude new proposals that would decrease FTE.

The solid line in Graph B shows the historical enrollment trend since fiscal 1992 and the fiscal 1996 through 1999 executive estimates for residents at the units and colleges. Fiscal 1992 through 1996 enrollments are

actual FTE. The fiscal 1997 executive enrollment estimate is expected to equal the approximate actual enrollment at fiscal year end. However, as shown by the difference between the solid and dashed lines in 1997, it should be adjusted to include an additional 94 FTE at UM-Missoula, who were enrolled in a Track II alternative program. These FTE are not included in the fiscal 1997 estimate, but they are included in the 1999 biennium estimates.



The dashed line shows an estimate that extends the adjusted fiscal 1997 enrollment by 300 FTE for each year of the 1999 biennium. This increase: 1) is approximately equal to the average annual enrollment change (positive and negative) from fiscal 1992 through fiscal 1997; and 2) will accommodate an expected 170 more high school graduates than enrolled in each prior year and 130 additional retained or recruited FTE. The adjusted estimate is well in excess of prior average biennial increases, given that resident enrollment declined between fiscal 1992 and 1996.

The university system recognizes that a currently expanding population of high school graduates will likely increase the number of students enrolling in a higher education program. If trends from prior years continue, approximately 41 percent of high school graduates will enroll in a Montana college or university, according to statistics from the Office of Public Instruction and the Office of the Commissioner of Higher Education. The net result for the 1999 biennium will be enrollment of approximately 170 additional students each year, as noted above. This increase is included in the MUS estimates and in the adjusted enrollment trend shown in Graph B.

The difference between the adjusted trend line and the executive estimate totals 747 resident FTE for both units and colleges in fiscal 1998 and 987 FTE in fiscal 1999, as shown in Table 8. As detailed in the table, these additions to the enrollment estimates result in a biennial budget that is higher by $3,188,388 general fund and $3,383,820 resident tuition than current data would indicate.

Table 8
Executive Present Law FTE Adjustment
Compared to Adjusted FTE Trend

	Units		Colleges		Units & Colleges	
	Fiscal 1998	Fiscal 1999	Fiscal 1998	Fiscal 1999	FY 98	FY 99
Executive Enrollment FTE Estimate	22,187	22,643	2,855	2,945	25,042	25,588
Adjusted FTE Trend	21,521	21,752	2,774	2,849	24,295	24,601
FTE Difference	666	891	81	96	747	987
Executive Budget GF/ FTE	$1,861	$1,861	$1,643	$1,643		
GF over Adjusted Trend	$1,239,426	$1,658,151	$133,083	$157,728	$1,372,509	$1,815,879
Executive Budget Tuition/FTE	$1,998	$1,998	$1,542	$1,542		
Tuition over Adjusted Trend	$1,330,668	$1,780,218	$124,902	$148,032	$1,455,570	$1,928,250
Executive Budget GF over Adjusted - 1999 Biennium Units and Colleges						$3,188,388
Executive Budget Tuition over Adjusted - 1999 Biennium Units and Colleges						$3,383,820

Increases of this magnitude could properly be considered a new proposal, rather than a present law adjustment, because they are dependent on new policies enacted by the Regents, generally with legislative knowledge and/or encouragement. The Executive Budget includes the university system estimated resident FTE increases of 5.7 percent for the biennium, which are based on an increasing number of high school graduates and three policies that tend to increase or decrease FTE: 1) implementation of new programs and student management policies; 2) increased carrying loads; 3) increased focus on recruitment and retention; and 4) elimination of underutilized programs. However, when the units and colleges provided the estimates for the Executive Budget, they considered possible increases that could result from some of the Regents' new policies, but gave little weight to possible decreases resulting from other policies. Therefore, it is possible that increases from some new policies will be at least partially offset by decreases due to other policies.

It is not possible to know whether individual campuses will gain at the expense of others through the introduction of new policies. However, the Executive Budget includes significant resident increases at all campuses for both years. This is in direct contrast to the experience of the prior five years in which some campuses gained while others lost FTE, resulting in very little net change.

New Programs and Student Management Policies - The major justification for most of the estimated 5.7 percent increase in FTE over the biennium is the development of new programs, which the MUS implemented to attract additional students. These programs are designed to provide: 1) additional opportunities for place-bound students at all campuses, including new associate degrees and general education offerings; 2) new options for education in areas such as environmental technology and computer systems; 3) expanded summer and intersession courses; and 4) new graduate programs. The MUS expects to expand offerings of new programs in the 1999 biennium, as well.

Also important, but not included in university FTE calculations, are policies that tend to lower FTE. The policies, enacted by the Regents in the 1997 biennium, are designed to get students through the system more rapidly, thus resulting in lower total costs of a degree for both the student and the state. They could

potentially decrease the enrollment in the 1999 biennium by nearly enough to offset the entire projected 5.7 percent present law adjustment in the Executive Budget. These policies include:

1) guaranteed graduation in four years if students adopt a program and follow it;

2) reduction of the number of credits required for a degree from 128 to 120 in most programs, which is a 6.25 percent decrease in both credits and FTE calculation; and

3) limiting the number of credits the state will subsidize to 150 for the 1999 biennium, which is approximately a 1.0 percent reduction from the 148-154 credits earned by most students during the 1997 biennium (the subsidized limit decreases to 144 credits in fiscal year 2000, resulting in an additional 4.2 percent reduction in the next biennium), and will result in the same reduction in state subsidized FTE as students start paying the full cost of education.

Increased Carrying Loads - Among the actions designed to encourage students to finish their educations in a shorter period of time is a policy to widen or eliminate the "flat spot" in full-time tuition, that point at which students may take additional courses without paying more tuition. That policy was at least partially responsible for increasing student credit loads at UM-Missoula. The resident undergraduate carrying load increased from 12.53 credits in the fall of 1995 to 13.73 credits in the fall of 1996, an increase of 9.6 percent. Since 1.0 FTE is equivalent to one student carrying 15 credits, this increase in credit load translates into an increase in the current FTE calculation. The additional FTE do not generate additional tuition revenue, but, they do generate state support to help offset the additional costs of providing extra courses to students taking advantage of the flat spot in tuition.

While an increase in carrying load is documented at UM-Missoula, MSU-Bozeman reports that its students are carrying fewer credits, thus reducing FTE. The increased credit load at UM-Missoula will at least partially offset the declining carrying load at MSU-Bozeman, with the result that changing credit loads may generate little net FTE change in the entire system.

Focus on Recruitment and Retention - The MUS is also focusing attention on additional recruitment and retention. Recruiters have been hired to try to recruit students who might not otherwise go to either a college or university, and to encourage students to stay in Montana rather than going out of state. To the extent that the recruiters succeed, the FTE will be increased. In addition, more student counseling is designed to retain students who might otherwise drop out. Again, to the extent that counseling succeeds, more students will continue their educations and the calculated FTE will increase. The potential impact on the FTE calculation is not currently quantifiable.

Elimination of Underutilized Programs - The 1995 legislature inserted language in HB 2 which reads, "The Montana university system is urged to make every possible effort to review all graduate level programs in the Montana university system and to eliminate unnecessary duplication in those programs, when possible by September 1, 1996. The board of regents shall report to the 1997 legislature on the accomplishment of this request." The MUS eliminated duplicative or underutilized: 1) masters degrees in some secondary education programs at MSU-Billings; 2) masters degrees in engineering mechanics and art at MSU-Bozeman; 3) masters degrees in music composition and geography and doctorates in zoology and sociology at UM-Missoula; and 4) a masters degree in metallurgy at Montana Tech-UM. In addition, the MUS eliminated bachelor degree programs at all schools, and consolidated some degrees into one, both at the undergraduate and graduate

levels. These actions will reduce FTE to the extent that students desiring training in the eliminated areas will seek other schools. However, the potential impact on FTE is not quantifiable.

Summary - Present Law Adjustment

Imbedded in the executive present law adjustment are two issues the legislature may wish to consider before taking action - the base and the fiscal 1998-1999 enrollment estimates. If the legislature wishes to fund the entire number of FTE estimated by the executive, approximately $1.2 million additional general fund and $1.3 million additional tuition will be required as adjustments to the base to reflect the total anticipated enrollment increase. As noted above, however, it appears the 1999 biennium enrollment estimates are too high and could be adjusted downward by approximately $3.2 million general fund and $3.4 million tuition. Legislative options include those listed below.

Options Dealing with the Base:

1) Calculate the present law adjustment for the biennium based on the fiscal 1996 estimated enrollment and budgeted expenditures, thus accepting the executive calculation; or

2) Calculate the present law adjustment for the biennium based on actual fiscal 1996 enrollment and expenditures, thus increasing general fund by $1,190,742 and tuition by $1,288,338 (Table 7) to reflect the real increase in the projected enrollment from fiscal 1996.

Options Dealing with Policy Issues:

1) Accept the executive present law adjustment, as altered by action on the base options above, including those increases resulting from new proposals;

2) Accept the executive present law adjustment, as altered by action on the base options, but split it into a true present law adjustment and a new proposal containing $3,188,388 general fund and $3,383,820 tuition (Table 8);

3) Enact the present law adjustment, as altered by action on the base options, excluding increases resulting from new proposals; or

4) Deny the entire present law adjustment, as altered by action on the base options.

Resident/Non-resident Enrollment

The legislature may wish to discuss the HB 2 language expressing legislative intent concerning enrollment of non-residents. The language states, "it is the intent of the legislature that the Montana university system student FTE at the six units and colleges of technology be comprised of at least 78 percent qualified resident students. No more than 22 percent of student FTE may be qualified non-resident students." This language was placed in HB 2 to discourage the system from enrolling higher paying non-resident students in place of qualified Montana resident students who had applied. Within a small margin of error, the university system complied with the language in fiscal 1996 and expects to comply in fiscal 1997, as shown in Table 9. However, the percentage of residents varied widely from 67 percent at UM-Missoula to 98 percent at the Helena College of Technology in fiscal 1996.

Table 9
Comparison of Residents and Non-Residents
Fiscal 1996 through Fiscal 1999*

Unit	Bozeman	Billings	Cot-Bil	Northern	Cot-GF	Missoula	Cot-Mis	MTT-UM	Cot-Butte	Western	Cot-Helena	Totals
FY96 Res	7,580	3,036	418	1,436	711	6,638	589	1,392	319	980	457	23,556
FY96 NR	2,705	239	18	58	16	3,272	40	287	10	102	11	6,758
Total	10,285	3,275	436	1,494	727	9,910	629	1,679	329	1,082	468	30,314
Res%NR	73.70%	92.70%	95.87%	96.12%	97.80%	66.98%	93.64%	82.91%	96.96%	90.57%	97.65%	77.71%
FY97 Res	7,633	2,913	419	1,456	713	6,816	691	1,440	350	941	529	23,901
FY97 NR	2,753	191	18	58	12	3,370	61	292	9	86	11	6,861
Total	10,386	3,104	437	1,514	725	10,186	752	1,732	359	1,027	540	30,762
Res%NR	73.49%	93.85%	95.88%	96.17%	98.34%	66.92%	91.89%	83.14%	97.49%	91.63%	97.96%	77.70%
FY98 Res	7,850	3,082	456	1,496	792	7,249	699	1,488	355	1,022	553	25,042
FY98 NR	2,967	231	28	78	23	3,646	83	342	24	127	31	7,580
Total	10,817	3,313	484	1,574	815	10,895	782	1,830	379	1,149	584	32,622
Res%NR	72.57%	93.03%	94.21%	95.04%	97.18%	66.54%	89.39%	81.31%	93.67%	88.95%	94.69%	76.76%
FY99 Res	8,035	3,179	479	1,540	830	7,322	738	1,510	360	1,032	563	25,588
FY99 NR	3,172	248	34	78	35	3,681	89	346	24	135	33	7,875
Total	11,207	3,427	513	1,618	865	11,003	827	1,856	384	1,167	596	33,463
Res%NR	71.70%	92.76%	93.37%	95.18%	95.95%	66.55%	89.24%	81.36%	93.75%	88.43%	94.46%	76.47%
Capacity	10,748	3,849	572	2,011	880	10,535	800	1,892	450	1,450	865	34,052

*Fiscal 1997, 1998, 1999 are CHE estimates

Two issues to be considered when evaluating the ratio of residents to non-residents in the university system are: 1) the financial benefits of enrolling non-resident students; and 2) the degree to which residents have access to higher education in the state.

Financial Benefits

As Table 9 shows, resident enrollment is within 0.3 percentage point of the required 78 percent for the 1997 biennium. The 0.3 percentage point by which non-resident enrollment exceeded the 22 percent is equal to approximately 90 FTE throughout the system. At an average non-resident tuition rate of approximately $6,000 per year, these students generated an additional $540,000 tuition each year of the 1997 biennium, assuming they did not displace any residents.

As Table 9 also shows, the university system resident enrollment estimates for the 1999 biennium decrease to below 76.5 percent by fiscal 1999. All schools except MSU-Billings are expected to enroll a greater percentage of non-residents by fiscal 1999. If the additional non-residents estimated actually enroll at an average tuition of approximately $6,600 each, and do not displace residents, additional non-resident tuition generated will exceed the fiscal 1996 revenue by approximately $5 million in fiscal 1998 and $7 million in fiscal 1999.

Access to Higher Education

The bottom line of Table 9 shows the self-reported capacity of each unit provided to the Joint Committee on Postsecondary Policy and Budget (PEPB) in September, 1994. Since that time, new classroom buildings have been built at UM-Missoula and MSU-Bozeman, but self-reported capacities have not been updated. Fiscal 1997 enrollment at all units is expected to be below the self-reported capacity. Therefore, there is little likelihood that non-residents have displaced residents in the current biennium.

The university system expects enrollment to exceed those self-reported capacities in fiscal years 1998 and 1999 at UM-Missoula and MSU-Bozeman, where most non-residents apply. However, the system enrollment would still be lower than the total system capacity (see Enrollment Present Law Adjustment). This expectation raises the possibility that non-residents will displace residents at the two major campuses. Qualified residents will clearly still have access to the system, but that access may not be at the first choice campus in the first choice program.

If the legislature wants to act on this issue, it could consider the options below.

Options

1) Continue to include general limiting language in the appropriations act;

2) Limit the number of non-residents on the two main campuses;

3) Re-evaluate enrollment projections; and

4) Give the university system full authority to enroll students, so long as qualified residents are not denied access to the system.

General Fund and Tuition Reversions

The Regents established a policy: 1) requiring the university units to estimate resident and non-resident enrollment for the upcoming biennium; 2) committing to the legislature that general fund for students who did not enroll would be reverted to the state; and 3) providing fiscal incentives for accurate enrollment estimates and management. Background information and four issues concerning this policy are discussed below. The issues are:

1) the enrollment estimates effect on general fund appropriation and reversions;

2) the calculation method effect on the amount of the general fund reversion;

3) Regents' policy effects, including difficulties experienced at MSU-Northern; and

4) lack of a Regents' policy for the use of tuition reverted to the Regents.

Background Information

The original intent of the Regents' policy providing reversions was two-fold: 1) require the units of the university system to estimate and manage enrollment within certain limits by imposing fiscal incentives; and 2) assure the legislature that the university system would not keep general fund intended to support students who did not enroll. While the agreement to revert general fund is voluntary on the part of the Regents, rather than being mandated by the legislature, the 1995 legislature expected that the reversions would occur. The Regents commitments are:

1) if resident enrollment is below the target, the MUS will revert general fund for each expected FTE not enrolled;

2) if resident enrollment exceeds the target by more than 2 percent, any resident tuition in excess of the 2 percent will result in a dollar for dollar general fund reversion; and

3) if non-resident enrollment exceeds the target by more than 1 percent, all non-resident tuition in excess of the target will revert to the Regents for reallocation.

In making these commitments, the Commissioner told the 1995 Joint Subcommittee on Education that: 1) enrollment would not be as high as the target estimates shown in the 1997 biennium Executive Budget; and 2) lower resident enrollment estimates would be in line with the general fund reduction approved by the legislature. He made no commitment as to the precise enrollment estimates until early summer, 1995, when the fiscal 1996 operating budgets were being developed. At that time, fiscal 1996 and 1997 enrollments were estimated to aid in allocation of a biennial lump sum appropriation approved by the legislature for OCHE, the six units, and the five colleges.

The subsequent fiscal 1996 and 1997 operating budgets approved by the Regents were based on revised enrollment estimates of 23,930 resident and 5,624 non-resident FTE in fiscal 1996 and 24,413 resident and 6,156 non-resident FTE in fiscal 1997, as shown in Table 10. Fiscal 1996 resident enrollment is lower than the executive estimate by 1,203 FTE, but lower than the operating budget estimate by only 374 FTE. Fiscal 1996 non-resident enrollment is lower than the executive estimate by 481 FTE and exceeds the operating budget estimate by 81 FTE.

The Board implemented the reversion policy by: 1) assigning a marginal general fund cost per student of $1,650, as provided in the Executive Budget, to each resident FTE below the target in each school; 2) calculating general fund reversions by unit annually, but actually reverting to the general fund on a biennial basis, as allowed by the biennial lump sum appropriation; 3) combining the enrollment from all campuses in each branch of the MUS for purposes of calculating variations from the non-resident targets; and 4) reallocating excess non-resident tuition on an annual basis. No policy was established for reversion of resident enrollment tuition to the general fund because resident enrollment did not exceed the target by more than 2 percent.

Table 10
Estimated General Fund & Tuition Reversions
Fiscal Year 1996

Unit	Executive FTE Est. FY 1996	Op Plan FTE Est. FY 1996	Op Plan FTE Est FY 1997	Actual FTE FY 1996	Estimated Actual FTE FY 1997	Biennial Actual vs Op Plan FTE Diff.	Biennial Calculated Reversions	MSU System Estimated Reversions	UM System Estimated Reversions
Unit/COT Resident FTE								GF-$1,650	
UM-Missoula	8,132	7,744	7,905	7,684	8,036	71	($117,150)	$0	($117,150)
MSU-Bozeman	8,473	8,294	8,415	8,291	8,346	(72)	118,800	118,800	0
MT Tech-UM	1,899	1,811	1,906	1,711	1,790	(216)	356,400	0	356,400
MSU-Billings	3,552	3,476	3,535	3,454	3,332	(225)	371,250	371,250	0
MSU-Northern	1,672	1,594	1,606	1,436	1,456	(308)	508,200	508,200	0
WMCUM	1,031	1,011	1,046	980	941	(136)	224,400	0	224,400
Subtotals/Averages	24,759	23,930	24,413	23,556	23,901	(886)	$1,461,900	$998,250	$463,650
Unit/COT Non-resident*								Tuition	
UM-Missnula	3,031	3,065	3,207	3,084	3,249	15	($2,624)	$0	($2,624)
MSU-Bozeman	2,417	1,971	2,248	2,149	2,441	365	2,243,200	2,243,200	0
MT Tech-UM	309	248	282	224	279	(37)	(236,782)	0	(236,782)
MSU-Billings	232	182	215	149	123	(150)	(856,857)	(856,857)	0
MSU-Northern	107	90	100	39	30	(121)	(702,062)	(702,062)	0
WMCUM	90	68	104	60	42	(70)	(394,679)	0	(394,679)
Subtotal	6,186	5,624	6,156	5,705	6,164	2	$50,196	$684,281	($634,085)
								Totals	
Totals	30,945	29,554	30,569	29,261	30,065	(884)	$1,512,096	$1,682,531	($170,435)

General Fund
1) General fund for projected students not enrolled is reverted to the general fund.
2) CHE $1,650 GF reversion/FTE is OK, assuming combining units and COT for the incremental reversion
3) Estimated GF reversion is $636,900 for FY96 if enrollment in FY 97 is equal to projections (lump sum funding for biennium).

Tuition
1) Tuition reverts to general fund if resident enrollment exceeds projection by 2% or more and & to the BOR when non-resident enrollment exceeds target by 1% or more
Approp. Minutes 1-16-95
Calculation assumes netting amounts across the MSU branch and UM branch of the system

* Excludes WUE

The following sections discuss some of the issues that arose during the 1997 biennium as a result of the reversion policy and its implementation by the Regents. The discussion provides potential options for the legislature in the areas of: 1) an enrollment base to calculate reversions; 2) methods for calculating reversions; and 3) policies for the use of excess non-resident tuition.

Enrollment Estimates and General Fund Appropriations and Reversions

The 1995 legislature knew that enrollment estimates would be updated when the Regents' operating budgets were prepared, based on more recent estimates and the reduced general fund appropriated. The difference between estimates provided in the Executive Budget and those used in the operating budgets becomes an issue if appropriations are based on one set of enrollment estimates, while reversions are based on another. An inflated executive enrollment estimate could result in increased general fund appropriations, while a reduced operating plan estimate could result in a smaller general fund reversion. For example, fiscal 1996

general fund reversions for a 1,203 FTE shortfall, based on the executive enrollment estimates, would be over three times as high as those based on the 374 FTE reduction from the operating plan estimates. Clearly, the use of two bases may result in: 1) a high enrollment estimate for calculation of appropriation requests; and 2) a lower estimate for operating budget and reversion purposes.

If the legislature wants to decide what enrollment estimate base should be used for calculating reversions, it could approve one of the options below.

Options

1) Base reversions on estimates used to determine appropriations; or

2) Base reversions on estimates included in the MUS operating budgets.

After studying this issue, the PEPB recommended that the enrollment base agreed to during legislature be the enrollment base for the Regents' operating budgets and for calculating reversions. The intent was to allow the MUS to update enrollment estimates before the end of a legislative session, thus allowing more recent estimates to be included for purposes of calculating reversions, while still maintaining an incremental approach to appropriations.

Method of Calculating Reversions

The calculation method affects the amount of reversion, both for general fund and for tuition reversions to the Regents. The general fund reversion for the 1997 biennium is calculated at the executive incremental rate of $1,650 per anticipated resident FTE who did not enroll, while the tuition reversions are based on the difference between estimated and actual non-resident FTE multiplied by the non-resident tuition at each unit.

The legislature and the MUS did not discuss whether general fund and tuition reversions would be calculated: 1) by school, branch of the MUS, or the system as a whole; and 2) by fiscal year or for the biennium. For example, if the reversions are specific to any one school, then all schools except UM-Missoula would revert an estimated $1,579,050 general fund for the 1997 biennium. Since UM-Missoula enrolled more than the estimated number of residents, it would have a non-recoverable general fund shortfall of $117,150, as shown in Table 10. If the reversion is calculated by branch or system, UM-Missoula's excess residents and general fund shortfall would be netted against the reduced number of residents in other schools, with the result that the entire university system would revert only $1,461,900 general fund.

Similarly, if non-resident tuition reversions to the Regents are calculated by school, MSU-Bozeman would revert $2,243,200 to the Regents, and the other schools would have non-recoverable deficits in tuition revenue. If tuition is reverted by branch, the MSU branch would revert $684,281, and the UM branch would have a non-recoverable deficit of $634,085. If the system is the basis for calculation, the MSU-Bozeman surplus would cover deficits in all units, resulting in reversions of only $50,196 to the Regents. Action taken by the Regents regarding MSU-Northern indicated reversions were being calculated by school and allocated by branch, as discussed below.

If the legislature wants to determine the method of calculating reversions, it could recommend one of the options below.

Options

1) Reallocate resident and non-resident student FTE within the system to offset differences in enrollment estimates and funding;

2) Reallocate resident and non-resident student FTE within the branch to offset differences in enrollment estimates and funding; or

3) Request that each campus be responsible for its own enrollment estimates and funding.

After studying this issue, the PEPB recommended that the MUS be allowed to reallocate resident and non-resident student FTE within the system to offset errors in enrollment estimates at each unit before calculating reversions to the general fund and tuition reversions to the Regents. This policy will allow system-wide netting of increases and decreases at the individual campuses before calculation of reversions, rather than requiring that each campus be responsible for the impacts of its own estimates.

Effects of the Regents' Policy

Estimated non-resident enrollment for the biennium is nearly equal to the estimate, as shown in Table 10. However, there are major impacts in MSU-Bozeman, MSU-Billings, and MSU-Northern. MSU-Bozeman will have an estimated 365 non-resident students in excess of its 1997 biennium target, which would result in a biennial tuition reversion to the Regents of $2.2 million. MSU-Billings and MSU-Northern non-resident enrollments are below target. MSU-Northern sustained the greatest proportional impact with approximately a 10 percent reduction in resident and a 60 percent reduction in non-resident FTE.

Board of Regents Action

Because both resident and non-resident enrollment were far less than expected at MSU-Northern, the Regents took action at its March, 1996 meeting to help mitigate the funding impacts. The Regents transferred excess non-resident tuition of $330,000 from MSU-Bozeman to MSU-Northern to offset an estimated fiscal 1996 general fund reversion of $262,000 and a portion of the non-resident tuition reduction of $284,000. (In addition, the Board of Regents also transferred $146,000 of the MSU-Bozeman non-resident tuition back to that unit for marginal costs of education for additional non-residents in fiscal 1996.)

Consequences of Low & High Resident FTE Enrollment Estimates

It must be noted that these policies, as implemented, may encourage units to: 1) inflate resident FTE estimates or targets to increase the general fund budget; and 2) expend all general fund allocation for the first year of the biennium when they are experiencing a shortfall in both resident and non-resident enrollment.

If the units underestimate resident enrollment up to 2 percent, they receive no general fund for those in excess of the estimate, although they do receive the resident tuition. If they underestimate by more than 2 percent, they receive neither general fund nor resident tuition for those in excess of the 2 percent. Loss of both general fund and tuition is a disincentive for risking a low estimate.

However, if the units overestimate resident enrollment, they need revert only the general fund for the overestimated FTE, thus assuring receipt of total general fund and tuition for all residents enrolled. The Regents' policy encourages units to err on the side of overestimation. This type of overestimation may have occurred during the 1997 biennium, as evidenced by the overestimate in the biennial operating budget of 886 resident FTE, compared to an accurate system-wide non-resident estimate. It may be continuing in the 1999 biennium, as evidenced by the sharp enrollment increases in the Executive Budget (See Enrollment Present Law Adjustment).

If units have a resident and non-resident enrollment shortfall in the first semester of a biennium, they would ordinarily have to begin reducing expenditures to offset the loss of anticipated general fund and tuition. However, the Regents' policy allows the units to continue to spend general fund they may have to revert at the end of the second year, rather than reducing expenditures and reverting general fund immediately. If the decreased enrollment then continues into the second semester, or even into the second year of the biennium as it has at MSU-Northern, the Regents are faced with the necessity of transferring funds from another unit. Prompt action to manage the unit budget may be prevented by the knowledge that: 1) estimated enrollment increases in the second year of the biennium may offset short term reductions; and 2) non-resident enrollment variations among units will be netted against each other on an annual basis, with the result that offsetting funds may be received from another unit.

Management of enrollment and funds is the responsibility of the university system. However, the legislature may wish to examine enrollment estimates closely before finalizing appropriations to help decrease the possibility of appropriating general fund for significantly more resident students than will actually enroll (see Enrollment Present Law Adjustment).

Policies for Use of Excess Non-resident Tuition

The Regents policy is to have the units revert to the Regents all non-resident tuition paid by the number of students in excess of the target number. The Regents then reallocate those funds for needs in projects, units, a branch of the system, or within the system as a whole in each fiscal year. In the case of the MSU branch, it took excess tuition in fiscal 1996 and reallocated a portion within the branch before establishing a general policy, even though there were negative tuition impacts in the UM branch as well. An alternate approach is to prioritize needs and reallocate tuition to meet those needs, regardless of the source of the excess tuition.

If the legislature wants to express its opinion on the use of excess non-resident tuition, it could consider the options below.

Options

1) Affirm the MUS action of giving prior claim to tuition reversions to a branch campus before considering needs on any other system campus or in the system as a whole;

2) Recommend that the Board of Regents prioritize requests from all campuses before allocating funds to any campus or project; or

3) Recommend that a combination of policies be implemented, depending on the circumstances.

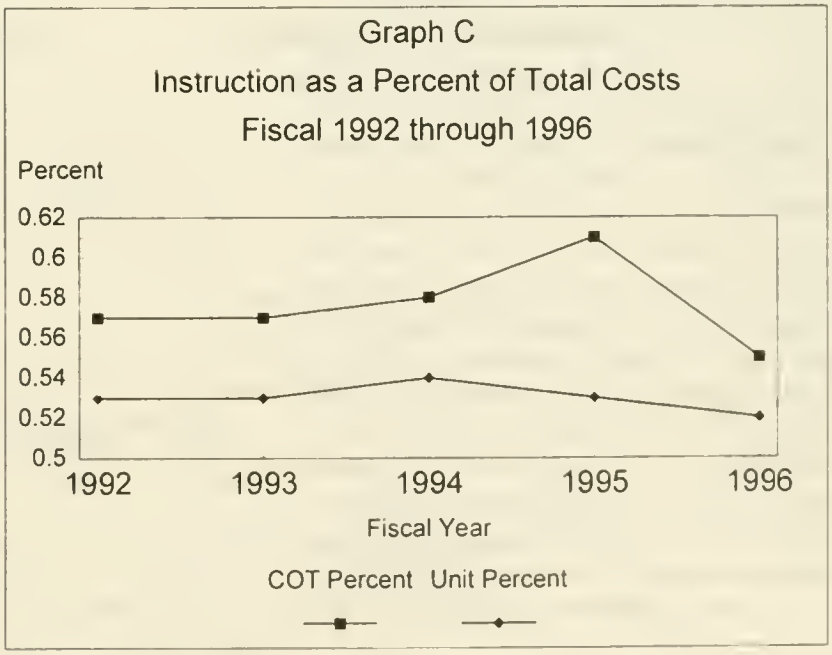
After studying this issue, the PEPB recommended that the Board of Regents implement policies governing the distribution of non-resident tuition generated by student FTE in excess of those estimated, depending on the circumstances.

Allocation of Funds for Instruction

In prior years, it was possible to compare the funding for the units and the colleges in all programs funded by state funds and tuition (instruction, research, public service, academic support, student services, institutional support, the physical plant, and scholarships). However, with the fiscal 1996 total merger of the colleges with the four-year campuses in Missoula, Butte, and Billings, it is now possible to compare only the instruction programs among the two-year and four-year schools. This discussion compares the instruction programs and details issues relative to: 1) allocation of funds to instruction compared to total funds available; 2) instruction expenditures compared to student tuition; and 3) the investment in instruction per FTE student.

Instruction Funds Compared to Total Funds

The proportion of total funds available for instruction per student in the colleges and four-year units remained relatively constant between fiscal 1992 and 1996, as shown in Graph C. The graphed data includes all five colleges from fiscal 1992 through 1995, but since three of the colleges have been merged with four-year units, only the colleges in Great Falls and Helena are included in the fiscal 1996 data. The graphed data for the four-year units includes three colleges in fiscal 1996, which may result in a slight one percentage point overstatement of the percentage of funds used for instruction in the units.



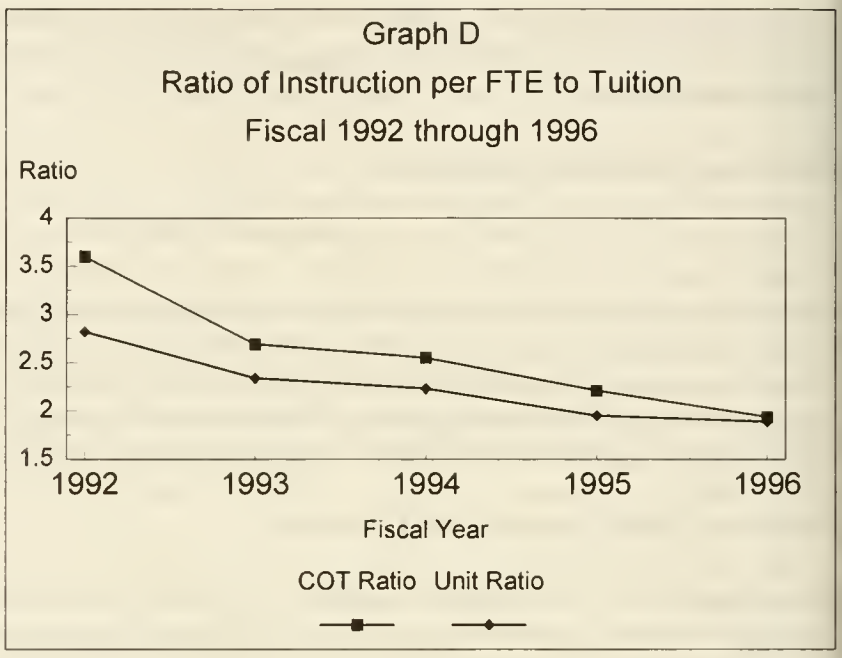
The graph shows that between 55 and 60 percent of total funds for the colleges are used for instruction, compared to 52 to 54 percent in the four-year units. These levels are projected to continue into fiscal 1997.

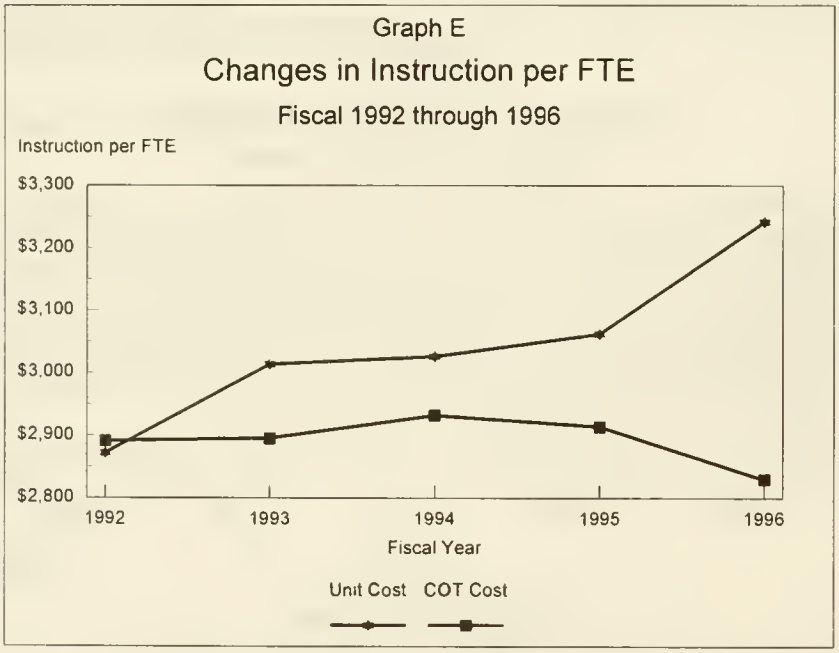
Instruction to Tuition

Graph D shows the ratio of instruction per FTE to tuition from fiscal 1992 through fiscal 1996. In fiscal 1992, college of technology students received over $3.50 and university students received over $2.75 in instruction for every dollar of tuition paid. As a result of increasing tuition relative to other funding sources, all students now receive approximately $2.00 in instruction for every dollar of tuition. In fiscal 1997 that ratio is projected to remain relatively constant for university students, but continue to decline to $1.80 per student in the colleges. The amount of instruction received per dollar of tuition has declined somewhat more rapidly for students in the colleges than in the units, as noted above, because of the relative changes in tuition as a percentage of total funds.

Instruction per FTE

Changes in instruction program expenditures per FTE in the units and colleges diverge rapidly beginning in fiscal 1993, as shown in Graph E. Instruction per FTE at both units and colleges was just under $2,900 in fiscal 1992, but increased to over $3,200 at the units and decreased to nearly $2,800 at the colleges by fiscal 1996. If estimated instruction expenditures and enrollment for fiscal 1997 are accurate, these trends will continue, with unit instruction rising to over $3,500 per FTE while college instruction per FTE declines to nearly $2,700. The factors causing the divergence in instruction per FTE are relative changes in: 1) student faculty ratios; and 2) faculty salaries.

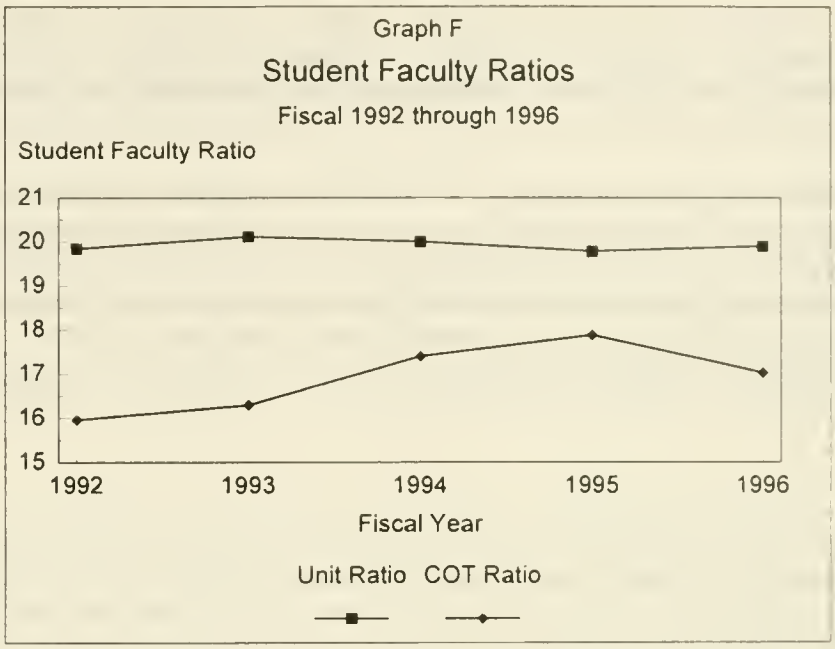




Student Faculty Ratios

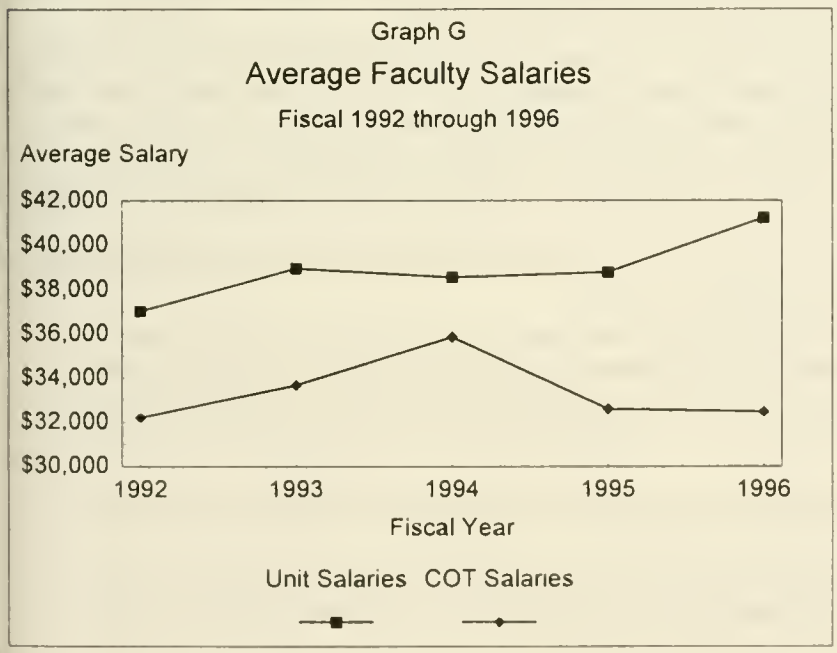
While there is variation among units and programs, total faculty numbers and student FTE at the four-year universities both increased over 4 percent between fiscal 1992 and 1996, and both faculty and FTE are expected to increase at the same rate in fiscal 1997. Therefore, the student faculty ratio at the units has remained relatively constant since fiscal 1992, as shown in Graph F.

Graph F also shows the situation is different in the colleges, where the student faculty ratio has increased since fiscal 1992. Enrollment increased at twice the rate of increase in faculty numbers between fiscal 1992 and 1996, and the ratio is projected to increase again in fiscal 1997.



Faculty Salaries

Graph G illustrates the role played by changing faculty salaries. Average faculty salaries in the units have increased, while those in the colleges are at approximately the fiscal 1992 level. Both are expected to increase in fiscal 1997, but the rate in the units is expected to be approximately twice the rate in the colleges.



Average faculty salaries in the fiscal 1992 to 1996 period were impacted by both legislative and administrative action. The 1993 legislature enacted an early retirement incentive for state employees who were eligible, including faculty. Average salaries declined only slightly in the units during fiscal 1994 and 1995, indicating that: 1) the average retiree was replaced at only a slightly reduced salary; and 2) turnover in faculty may have been relatively modest. The sharp decline in average salaries at the colleges is the result of a 25 to 40 percent faculty turnover following the retirement incentive. Older faculty, who were paid over $40,000 annually, retired and were replaced by new faculty hired at salaries that are $10,000 to $15,000 lower.

Administrative action, in the form of the collaborative agreements negotiated by the university system and faculty on each campus of the university system, may also play a role in the salary trends at the units and colleges. While the emphasis of these agreements varied by campus, they generally offered faculty salary increases in excess of the state pay plan in exchange for increased faculty productivity. On the larger campuses, the increased productivity took the form of more advising, more classes available during evening

and weekend hours, and smaller classes. Faculty were to work more, and students were to receive more quality and opportunity without necessarily changing the student faculty ratio. The first annual reports indicate that these goals were basically met, although some salary increases had to be delayed because actual enrollment, and therefore tuition revenue, did not meet expectations.

The colleges of technology were included in the negotiated agreements, but not heavily emphasized. However, the university system has emphasized two-year education, and resident enrollments at the colleges have increased faster than those at the units. The increase in student faculty ratios may indicate that increased productivity resulted from increased student loads per faculty member. The increases may also indicate that students are receiving less faculty time per FTE.

5100 03
Montana University System — **Distance Learning**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Transfers	0	0	1,460,000	1,460,000	0	1,400,000	1,400,000	2,860,000
Total Costs	$0	$0	$1,460,000	$1,460,000	$0	$1,400,000	$1,400,000	$2,860,000
General Fund	0	0	1,460,000	1,460,000	0	1,400,000	1,400,000	2,860,000
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	$0	$0	$1,460,000	$1,460,000	$0	$1,400,000	$1,400,000	$2,860,000

Executive New Proposal

Distance Learning & Virtual University Participation - This new initiative will include Montana's participation in the Western Governor's Virtual University and will build on the extensive electronically delivered programs already available in Montana. The delivery methods currently being used include: METNET, the state's interactive video system now at 11 sites throughout the state; NorthNet, an interactive video system being implemented at numerous sites across the hi-line in collaboration between MSU-Northern and regional telephone cooperatives; interactive video systems managed by MSU-Billings and Dawson Community College; tele-computing courses taught over the Internet by campuses of the Montana University System; and courses offered in conjunction with programming on public television.

The new component is the Western Governor's Association Virtual University which will break from traditional teaching methods and provide more service for the students. Classes offered within the Virtual University will be able to measure skills, not seat time. There will be flexibility for the student to take the classes while working on the family farm or holding a full time job in one of our largest communities. The flexibility will extend to offering specific types of information to those who just need the training and not the degree.

Funds allocated to support this initiative will be used in a variety of ways:

Expansion of physical infrastructure and bandwidth to provide a single digital system to include voice, data and interactive video. This will be done in partnership with private telecommunications providers and other state agencies, including the Information Services Division of Department the of Administration, Office of Public Instruction, and other non-profit organizations.

Faculty and staff development to ensure improved use of electronic technologies to deliver academic programs.

Development of certificates of learning, associate degrees and ultimately bachelor's degrees that can be awarded through a combination of electronic technologies, including the Internet.

Support for specific post-secondary programs determined to be needed by place bound students throughout the state.

Promotion and coordination of courses available on the Internet.

These funds will be allocated by the Board of Regents in two processes. The first process will allocate money directly to the campuses in accordance with their institutional capabilities, interests, and needs. These funds will be separately accounted for by the Regents and on the campuses and will require a specific plan for expenditure and specific accountability measures.

The second process will be based on the commitment of the Regents to use a Request for Proposal (RFP) process for meeting these needs through electronically delivered programs. Providers of these educational services would be chosen based on price and quality and the process would be open to all providers in the public and private sector. Criteria for selection will be: responsiveness to state needs, fiscal viability of the provider, institutional capability and capacity, quality of program and program cost. Monopoly would give way to managed competition with the goal of creating a competitive environment to get the highest quality programs at the best possible price for the state of Montana.

This initiative will require careful coordination with existing and developing delivery mechanisms for distance education and flexibility to prepare for rapid developments in available technologies for distance education. It will include the review of existing policies regarding distance education and consideration of incentives to make expansion in distance education a clear goal for the campuses of the Montana University System. It is also anticipated that the technologies available for distance learning will also have significant impact on the quality of learning experiences in on-campus programs.

It is recommended that a specific line item for the MUS Technology/Enhanced learning initiative be included in HB 2 with the understanding that these funds will be used specifically for this program. It is also recommended that the MUS report annually on the use of the funds and the progress that has been made.

Recommended funding for distance learning is $2.86 million general fund.

LFD Comment **- The Executive Budget includes $1.4 million general fund each year for Distance Learning. The Commissioner of Higher Education reported the system planned to go through a needs assessment process, followed by issuance of requests for proposals to fulfill the needs. Potential needs include involvement in the Western Governors University and electronic offerings of: 1) a general education core curriculum; 2) a core curriculum for a master's degree in education; 3) an associate of arts or sciences; 4) a bachelor of liberal studies; and 5) a business related field. He estimated that development of each course would require equipment and the time equivalent of 1.0 FTE faculty member for one semester.**

The Commissioner did not provide documentation showing how the university system justified the need for $2.8 million for the biennium. Information not available to the LFD includes: 1) how many students might be served and where; 2) how much it might cost to develop a course; 3) how much equipment might be needed; and 4) the assumptions used to arrive at the $2.8 million.

5102 04
Commissioner of Higher Education — **Community College Assistance**
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Local Assistance	4,869,113	(238,598)	0	4,630,515	(271,238)	0	4,597,875	9,228,390
Total Costs	$4,869,113	($238,598)	$0	$4,630,515	($271,238)	$0	$4,597,875	$9,228,390
General Fund	4,869,113	(238,598)	0	4,630,515	(271,238)	0	4,597,875	9,228,390
Total Funds	$4,869,113	($238,598)	$0	$4,630,515	($271,238)	$0	$4,597,875	$9,228,390

Program Description

The Community College Assistance Program distributes funds appropriated by the legislature for the support of Montana's three community colleges: Miles Community College, Flathead Valley Community College, and Dawson Community College. Each community college district has an elected board of trustees accountable to and supervised by the Board of Regents.

Funding

Funding for the community college assistance program is general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. The numbered adjustments in the table correspond to the narrative descriptions.

5102 04
Commissioner of Higher Education
Community College Assistance

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	0	0
02	Inflation/Deflation	0	0
03	Fixed Costs	0	0
	Total Statewide Adjustments	$0	$0
Significant Present Law Adjustments			
	Enrollment Adjustment	($238,598)	($271,238)
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	($238,598)	($271,238)

In the 1995 legislative session, a motion was passed to fund 2,296 students at 51 percent of $4,163 per student per year. The motion added $776,854 biennially to the community college appropriation, but was not enough to fund all of the items stated in the motion. The discussion suggested that the additional money was for: 1) increasing general fund support per student; 2) helping community colleges prepare for additional resident students coming from the university system; and 3) local property tax reduction. It was unclear at the time of passage whether the additional biennial appropriation should be considered a one-time-only appropriation or a part of the base.

In attempting to maintain legislative intent, OBPP assumed that the pay plan in HB 17 could also be used to help fund the motion. The resulting general fund per student was $2,164.

The legislature has historically funded all community college students. In recent years the legislature has moved towards funding resident students only. If funding is applied to resident students only, the general fund allocation per student increases to $2,294.

LFD Comment **- As noted above, the exact purposes and allocation of the biennial appropriation were unclear at the time of passage. The Legislative Fiscal Report, 1997 Biennium states that funds were to provide increased "general fund support for resident students." The CHE subsequently allocated the general fund on the basis of resident students only.**

The LFD analyzed the proposed 1999 biennium general fund per FTE using both resident and total students as the basis. Both calculations result in approximately the same general fund allocation per student for the 1999 biennium. To determine the total present law budget, the general fund amount of $2,294 per FTE is multiplied by the average of the prior two years' resident enrollment, resulting in $4.6 million general fund support for the community colleges each year of the biennium. The reduction from the fiscal 1996 base is the result of declining enrollment at the community colleges.

Note that audit costs are additional to the above expenditures. Fifty-one percent of the total audit costs of $64,000 are recommended to be funded with general fund.

LFD Issue **- The following section provides information the legislature may need to make a decision on state assistance for the community colleges, including information on: 1) the enrollment trend; 2) tuition comparisons; 3) budgeted costs per student; and 4) property tax relief.**

Enrollment Trend **- The enrollment trend, as indicated in Table 1, shows a pattern of decreasing enrollment in the three community colleges from fiscal 1992 through fiscal 1996. That trend appears to be continuing in fiscal 1997, although enrollment has stabilized at Flathead Valley Community College.**

Table 1
Community College Enrollment
Fiscal 1992 through Fiscal 1997

College*	Actual FY 1992	Actual FY 1993	Actual FY 1994	Actual FY 1995	Actual FY 1996	Net Chg. FY 92-96	Estimated FY 1997
Miles	554	625	580	526	537	(17)	528
Dawson	453	477	491	482	423	(30)	372
Flathead Valley	1,293	1,185	1,168	1,149	1,134	(159)	1,151
Totals	2,300	2,287	2,239	2,157	2,094	(206)	2,051

* Includes resident and non-resident FTE; excludes restricted FTE

Tuition Comparisons - Table 2 shows the tuition charged at each college for fiscal years 1995 through 1997, as well as fiscal 1997 tuition averages at Montana units and colleges of technology and selected tuition rates in North Dakota and Wyoming. As the table shows, the fiscal 1997 average tuition approximates that at the colleges of technology and is $250 less than that charged at the units.

It appears that Montana's eastern community colleges are not able to compete on a price basis with North Dakota or Wyoming schools. Montana's eastern colleges charge resident tuition and fees nearly equal to the non-resident tuition and fees charged Montana residents in North Dakota units. For example, Dickinson State University charges Montana residents $2,100 annually for tuition and fees, while Dawson Community College charges approximately $2,000 for out-of-district residents.

Table 2
Community College Annual Out-of-District Tuition
Fiscal 1995 through Fiscal 1997

College	FY 1995	FY 1996	FY 1997	Net Chg. FY 95-97
Miles	$1,236	$1,440	$1,440	$204
Dawson	1,442	1,442	1,442	0
Flathead Valley	1,540	1,652	1,750	210
Average	$1,406	$1,511	$1,544	$138
Average Units	$1,572	$1,717	$1,801	$229
Average COT	1,316	1,460	1,532	216
ND 4 yr. (MT Res.) Tuition and Fees**			$2,100	
WUE WY 4 yr. Tuition			1,812	
WUE WY 2 yr. Tuition			1,236	

**Equates to Dawson $2,000 per year

In Wyoming, Montana residents are charged the Western University Exchange (WUE) rates of 150 percent of Wyoming resident tuition. A Montana resident may attend a Wyoming two-year school for $200 tuition per year less than would be paid at Miles or Dawson Community Colleges. The attractive tuition charged Montana residents in North Dakota and Wyoming may at least partially explain why several hundred Montana students attend schools just outside Montana's borders.

Table 3
Budgeted Cost per Student
Fiscal 1997

Educational Unit	Cost/FTE
Community College	
Dawson	$5,806
Miles	5,433
Flathead	4,839
University Unit	
MSU Bozeman	$6,621
MT Tech-UM	6,590
UM-Missoula	6,171
MSU Northern	5,971
UM-Western	5,484
MSU Billings	5,490

Budgeted Costs per Student - Decreasing enrollment and higher tuition result in higher average total current unrestricted expenditures per FTE. As shown in Table 3, fiscal 1997 costs at Dawson Community College are higher than those at MSU-Billings and UM-Western, and costs at Miles Community College are nearly equal to costs in those two four-year schools. The legislature may wish to consider whether high out-of-district costs and low enrollment impact competitiveness and efficiency of operation in the eastern community colleges.

Property Tax Relief - When the 1995 legislature approved the 1997 biennium budget, it anticipated that funds would be sufficient to provide 51 percent of $4,163 per calculated resident student, funds for some additional resident students, and reduction in community college mill levies. As Table 4 shows, the biennial general fund needed to meet the per-student requirement was $9,180,414, which included the entire base appropriation, plus $379,200 from the biennial appropriation. The $397,654

general fund remaining from the biennial appropriation was available for tax relief because no additional residents enrolled.

Flathead Valley Community College reduced property taxes for the operating budget by 1.1 mill or approximately $108,000 for the biennium. The Miles Community College operating levy declined by 1.15 mill because of increased valuation, but the millage income was unchanged in both years. The Dawson Community College operating levy declined by 2.09 mill in fiscal 1996, but increased 7.41 mills in fiscal 1997, resulting in a net increase in millage income of approximately $38,000 over the biennium. While Flathead Valley Community College decreased taxes in exchange for increases in state funding, Miles Community College used the increased state funding to increase the budget. Dawson Community College used both the increased state funding and an increased property tax to fund increased expenditures during the biennium.

Table 4
Allocation of 1997 Biennium Appropriation

General Fund Calculation	Appropriation
51% x 4,324 FTE x $4,163	$9,180,414
Biennial GF Base Appropriation	8,801,214
Needed from Biennial Appropriation	$379,200
Total Biennial Appropriation	$776,854
General Fund for FTE	379,200
General Fund for Property Tax Relief	$397,654

5100 05
Montana University System — Rural Residency Program
Program Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE								
Transfers	0	0	100,000	100,000	0	100,000	100,000	200,000
Total Costs	$0	$0	$100,000	$100,000	$0	$100,000	$100,000	$200,000
General Fund	0	0	100,000	100,000	0	100,000	100,000	200,000
Total Funds	$0	$0	$100,000	$100,000	$0	$100,000	$100,000	$200,000

Program Description

The Rural Residency Program provides incentive funding to medical students for completing their medical residencies in rural Montana communities. The program's goal is to facilitate access to primary health care in rural Montana by promoting higher education for medical providers.

LFD Comment - This program provides a Montana family practice residency program for medical students who have completed their medical degrees. The program was initiated in 1982 as an opportunity for one to two month clinical rotations for physicians admitted to residency programs in other states. In fiscal 1992 MSU applied for and received a grant to support the development of a free-standing Family Practice Residency program to encourage doctors to practice in Montana. In fiscal 1996 the program was accredited and located in Billings. It is associated with two hospitals and the Deering Clinic in Billings, as well as rural hospitals in Sidney and Glasgow.

Funding

The Executive Budget recommends that funding continue at $100,000 general fund per year for the 1999 biennium. This is the funding level appropriated by the legislature for fiscal years 1995 through 1997. The program began operating as a fully accredited program in July, 1996 and currently supports six resident physicians, four of whom are Montana natives.

The 1999 biennium agency funding request is shown in Table 1. The agency request would have doubled the number of resident physicians in fiscal 1998 and tripled it in fiscal 1999. Of the funds requested, nearly 90 percent are used for salaries, benefits, and speciality fees, with the remainder being used for rent, travel, equipment, and other associated expenses.

Table 1
Montana Family Practice Residency
FY 1997 vs Agency Request 1999 Biennium

Funding Source	Agency Request FY 1998	Agency Request FY 1999
Hospitals	$752,530	$944,190
Provider Contracts	344,000	430,000
State Support	500,000	750,000
Other	75,560	43,350
Total	$1,672,090	$2,167,540
# Residents	13	18
Ave. Cost/Resident	$128,622	$120,419

5100 05
Montana University System
Executive Budget New Proposals

Rural Residency Program

New Proposal Description	Fiscal 1998 FTE	Fiscal 1998 General Fund	Fiscal 1998 Other Funds	Fiscal 1998 Total Funds	Fiscal 1999 FTE	Fiscal 1999 General Fund	Fiscal 1999 Other Funds	Fiscal 1999 Total Funds
01 Residency Program		100,000		100,000		100,000		100,000
Total For New Proposals		$100,000		$100,000		$100,000		$100,000

Executive New Proposal

The new proposal is a transfer of this program from the Department of Public Health and Human Services (DPHHS) to Montana State University. The program has been a grant from DPHHS to Montana State University. It has been and is recommended to be a current restricted fund expenditure.

LFD Issue - **The Executive Budget recommends using a College and University Business Administrators current restricted fund for this general fund appropriation. A current restricted fund, as noted earlier, is generally used for federal grants or contracts designated for specific purposes. A current restricted fund may be used for this state grant, provided the funds are appropriated to the Board of Regents and transferred as a grant to MSU-Bozeman. If the legislature approves this new proposal, it may wish to add the word "restricted" to the Family Practice Residency Program line in HB 2 to ensure that the funds are used only for this program.**

5100-99
Total Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
	Research/Service Agencies							
FTE	401.96	0.00	0.00	401.96	0.00	0.00	401.96	
Agricultural Experiment Station	$10,241,618	$272,689	$0	$10,514,307	$281,807	$0	$10,523,425	$21,037,732
Extension Service	5,133,854	269,869	0	5,403,723	267,391	0	5,401,245	10,804,968
Forest and Conservation Experiment St	729,152	35,193	0	764,345	35,325	0	764,477	1,528,822
Bureau of Mines	1,937,701	104,064	0	2,041,765	107,765	0	2,045,466	4,087,231
Fire Services Training School	255,177	15,066	0	270,243	12,683	0	267,860	538,103
Total	$18,297,502	$696,881	$0	$18,994,383	$704,971	$0	$19,002,473	$37,996,856
Personal Services	$15,255,577	$655,303	$0	$15,910,880	$656,217	$0	$15,911,794	$31,822,674
Operating	2,730,058	23,935	0	2,753,993	28,866	0	2,758,924	5,512,917
Equipment and Intangible Assets	300,402	28,664	0	329,066	30,759	0	331,161	660,227
Debt Servce	11,315	(11,021)	0	294	(11,021)	0	294	588
Grants	150	0	0	150	150	0	300	450
Total Costs	$18,297,502	$696,881	$0	$18,994,383	$704,971	$0	$19,002,473	$37,996,856
General Fund	$12,719,734	$448,913	$0	$13,168,647	$461,877	$0	$13,181,611	$26,350,258
State/Other Special Revenue Funds	552,237	113,763	0	666,000	113,763	0	666,000	1,332,000
Federal Special Revenue	4,082,626	91,415	0	4,174,041	91,415	0	4,174,041	8,348,082
Proprietary	942,905	42,790	0	985,695	37,916	0	980,821	1,966,516
Total Funds	$18,297,502	$696,881	$0	$18,994,383	$704,971	$0	$19,002,473	$37,996,856

The above table provides the total funding proposal for the Agricultural Experiment Station, the Montana Extension Service, the Forestry and Conservation Experiment Station, the Bureau of Mines, and the Fire Services Training School. Agency descriptions and proposed budgets for each are provided following discussion of the two issues common to most or all of the research/public service agencies: 1) research in the Montana University System; and 2) the unfunded liability in agency faculty salaries.

Research in the Montana University System

In addition to the research stations, Montana State University, the University of Montana, and the Montana College of Mineral and Science Technology (Montana Tech) all have significant research departments. The University System as a whole expended $61 million on research activities in fiscal 1996. Funding for research in fiscal 1996 came from a variety of federal, state, and private sources, with approximately 36 percent coming from state aid. Specific funding information is shown in Table 1.

Table 1
Montana University System Research Spending
Fiscal 1996 Research Expenditures (Millions)

Unit/Source	Expenditures
Educational Units	$48.0
Research Units	13.0
Total	$61.0
State Funding	
Current Unrestricted*	$11.6
Indirect Cost Funds	8.3
Science and Technology Loans	0.4
Federal, Private and Local Funding	40.7
Total	$61.0

* Includes General Fund

In fiscal 1996 $8.3 million of state research funds came from indirect cost revenues. These funds represent reimbursements received from research grants and contracts for facilities and services provided at state expense. Montana reinvests these funds in research, as provided in 20-25-427 MCA. Prior to fiscal 1988, 85 percent of those revenues were applied to reducing the general fund cost of university budgets and 15 percent were reinvested. In fiscal 1988 the amount reinvested was increased to 50 percent with a corresponding reduction in the portion used to fund the general operating budget. Beginning in fiscal 1990, all indirect cost

revenues were reinvested.

Research/Extension Agency Unfunded Salaries

The Agricultural Experiment Station, Extension Service, Fire Services Training School, Bureau of Mines, and Forestry Conservation and Experiment Station are agencies associated with the two major units of the university system but not included in the university system "lump sum" for the current biennium. As part of the university system, faculty in these agencies receive the same benefits as those on campus, including state pay plan and additional negotiated salary increases. However, the funding for agency salary increases is entirely general fund because no other funding is available, while funding on campus is from both state funds and tuition.

Table 2
Estimated Agency Salary Funding Shortfall

Agency	FY96 Base Salary	Estimated FY97 Salary FY96+3.5%	Estimated FY98 Salary FY97+2.5%	Estimated FY99 Salary FY98+2.5%
		——State Pay Plan Estimates——		
AES	$3,471,135	$3,592,625	$3,682,440	$3,774,501
CES	2,888,708	2,989,813	3,064,558	3,141,172
FSTS	38,796	40,154	41,158	42,187
BoM	642,354	664,836	681,457	698,494
FCES	360,128	372,732	382,051	391,602
Total Salaries	$7,401,121	$7,660,160	$7,851,664	$8,047,956
15% Benefits	1,110,168	1,149,024	1,177,750	1,207,193
Total	$8,511,289	$8,809,184	$9,029,414	$9,255,149

Agency	FY96 Base Salary	Estimated FY97 Salary FY 96+6.9%*	Estimated FY98 Salary FY 97+6.9%*	Estimated FY99 Salary FY98+6.9%*
		——University Negotiated Pay Plan Estimates——		
AES	$3,471,135	$3,710,643	$3,966,678	$4,240,378
CES	2,888,708	3,088,029	3,301,103	3,528,879
FSTS	38,796	41,473	44,335	47,394
BoM**	642,354	674,472	708,195	743,605
FCES	360,128	384,977	411,540	439,937
Total Salaries	$7,401,121	$7,899,594	$8,431,851	$9,000,193
15% Benefits	1,110,168	1,184,939	1,264,778	1,350,029
Total	$8,511,289	$9,084,533	$9,696,628	$10,350,221
Shortfall	$0	($275,348)	($667,214)	($1,095,072)
1999 Biennium Estimated Shortfall after Pay Plan				($1,762,287)
% Biennium Shortfall				-8.79%

* includes state pay plan - negotiated salary increases are 4.4% in addition to pay plan

** % negotiated increases for Bureau of Mines are 2.5% each year in addition to pay plan

State Pay Plan

State pay plan increases (HB 17, 1995 legislature) for all university faculty, including those in the agencies, equals the percentage increases provided all other state employees, as shown in the upper portion of Table 2. Annualized salary increases from fiscal 1996 to fiscal 1997 total approximately 3.5 percent, and the university system estimated state pay plan increases of 2.5 percent each year for the 1999 biennium. Funding for state pay plan increases, which depends on the department funding sources, is provided by general fund in the university system agencies. As the table shows, the university system estimated that the state pay plan for agency faculty would increase total salaries from $7.4 million in fiscal 1996 to an estimated $8.0 million general fund in fiscal 1999.

Additional Salary Increases

The university system also negotiated agreements with faculty in all units that provide salary increases in excess of the state pay plan. These increases, funded by tuition only, were to: 1) have no general fund impact; and 2) depend in part on certain efficiencies and productivity increases. The Executive Budget included tuition for negotiated increases at the

University of Montana-Missoula (UM), where negotiations were complete before the 1995 legislative session. While not required to fund budget increases resulting from administrative action, the legislature subsequently provided additional lump sum tuition spending authority in anticipation of agreements on all campuses.

Agency faculty receive the same negotiated salary increases received by faculty on the campuses. However, agency budgets, which were funded separately and not part of the lump sum, are funded primarily by general fund and do not have access to tuition. While the Joint Appropriations Subcommittee on Education discussed the fact that agency faculty negotiated salary increases were unfunded in the Executive Budget, it took no action to provide general fund for that purpose. The legislature provided no other funding source in final action, leaving these salary increases unfunded during the 1997 biennium.

University System Response

The university system used short-term measures to pay the unfunded 1997 biennium increases through a combination of efficiencies, downsizing, pay plan general fund transfers, and non-resident tuition transfers from the main unit. However, the difficulty is compounded in the 1999 biennium, as noted above, because: 1) no permanent funding was provided for the 1997 biennium increases; 2) annualized salary increases for fiscal years 1998 and 1999 are higher because the 1997 biennium increases did not begin until the second quarter of each year; and 3) additional faculty salary increases have been negotiated for fiscal years 1998 and 1999. If the increases in excess of the estimated 2.5 percent state pay plan remain unfunded in the 1999 biennium, present law faculty salaries and benefits will exceed the available general fund by 8.8 percent or $1.76 million, as shown in the lower portion of Table 2. Note that if the legislature does not approve a state pay plan, the biennial funding shortfall could exceed $3.0 million.

Options

Available options include: 1) funding the increases with general fund or alternative funding sources; 2) service reductions; and 3) eliminating negotiated salary increases in excess of the state pay plan for agency faculty.

General Fund or Alternative Funding

A general fund appropriation of $1.76 million for negotiated salary increases during the 1999 biennium will maintain the agencies at approximately their present level. Alternative funding sources considered by the Joint Committee on Postsecondary Education Policy and Budget (PEPB) are user fees, increased private funding, and tuition. The PEPB found that: 1) user fees are limited by federal law, particularly in the Extension Service; and 2) private funding is by contract for specific research projects, rather than for general operating expenses.

The PEPB also found that at least one other state funds agencies with tuition to a limited extent. Wyoming mixes state funds and tuition together in the current unrestricted operating fund and appropriates that fund for the whole system, including agencies. The difference between Wyoming and Montana is that student tuition funds approximately 20 percent of the current unrestricted operating budget in Wyoming (fiscal 1992 "Western Interstate Commission for Higher Education Policy Indicators"), while tuition currently funds approximately 50 percent in Montana. Therefore, a smaller portion of student tuition is used for agencies

in Wyoming than would be the case under a similar situation in Montana. Nevertheless, if the legislature wished to establish a policy of using student tuition to partially fund the agencies, it could appropriate a lump sum containing both state funds and tuition for the whole university system, including agencies.

Service Reductions

The salary increases negotiated in addition to the estimated state pay plan for the agencies will result in a funding shortfall of approximately 8.8 percent of faculty salaries if no other funds are provided in the 1999 biennium, as noted above. If that shortfall occurs, either the salary increases in excess of the state pay plan must be eliminated as discussed below, or services must be reduced. Service reductions could take the form of an 8.8 percent reduction in all agency faculty or reduction/elimination of specific research stations, research services, and extension services. The impact of an 8.8 percent reduction in faculty salaries and benefits, if applied proportionately to all agencies, would be biennial reductions of 16.7 FTE faculty, including: 1) 7.1 FTE in the Agricultural Experiment Station research program; 2) 7.6 FTE in the Extension Service; 3) 0.1 FTE at the Fire Services Training School; 4) 0.7 FTE at the Forestry and Conservation Experiment Station; and 5) 1.2 FTE at the Bureau of Mines.

Eliminating Negotiated Salary Increases

Faculty in the agencies usually perform some combination of research, teaching, and public service for both the campus and the agency. The percentage of time may vary from year to year, and salaries for individual faculty members are usually prorated on the basis of proportional FTE employment on campus serving students or in the agency providing public services. Thus, some teaching, research, and service benefits students who are paying tuition, while other similar efforts benefit only members of the public who pay no tuition at all. Currently there is no differentiation between faculty FTE serving students and faculty FTE serving the public in general.

The legislature is not required to: 1) fund administrative increases for agency faculty salaries in excess of the state pay plan; or 2) authorize the use of tuition for funding agency budgets. In addition, it may refuse to authorize service reductions. In that case, the only option is to eliminate the salary increases that exceed the state pay plan. This action would result in: 1) variation in pay among similar faculty on the campuses and in the agencies; 2) salary differences for partial FTE of individual faculty members with split assignments; and 3) lower salaries for faculty positions in the agencies.

Summary

In summary, the basic policy question is, "does the legislature affirm the negotiated agency faculty salary increases?" If the response is "yes," legislative options are to fund those increases with some combination of services reductions and increases in general fund and/or tuition. If tuition is used, including the agencies in the university system lump sum is the most direct way to accomplish this option.

If the legislature does not affirm the negotiated agency faculty salary increases, the options are to reduce staff and services or provide a regular state pay plan for the agency faculty, regardless of differences in pay among similar faculty.

5100-09
Montana University System
Agency Proposed Budget

Agricultural Experiment Station

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	230.8	0.00	0	230.8	0	0	230.8	230.8
Personal Services	$8,467,829	$311,497	$0	$8,779,326	$310,544	$0	$8,778,373	$17,557,699
Operating Expenses	1,552,047	(31,678)	0	1,520,369	(21,607)	0	1,530,440	3,050,809
Equipment and Intangible Assets	214,612	0	0	214,612	0	0	214,612	429,224
Debt Service	7,130	(7,130)	0	0	(7,130)	0	0	0
Total Costs	$10,241,618	$272,689	$0	$10,514,307	$281,807	$0	$10,523,425	$21,037,732
General Fund	$7,420,077	$273,062	$0	$7,693,139	$287,054	$0	$7,707,131	$15,400,270
Federal Special Revenue Funds	1,922,587	(43,114)	0	1,879,473	(43,114)	0	1,879,473	3,758,946
Proprietary Funds	898,954	42,741	0	941,695	37,867	0	936,821	1,878,516
Total Funds	$10,241,618	$272,689	$0	$10,514,307	$281,807	$0	$10,523,425	$21,037,732

Mission Statement

To conduct research relating to agriculture, natural resources and rural life, and to diffuse the information acquired among the people of Montana. The AES is the agricultural research component of the land grant university's tri-partite mission of teaching, research and service.

Agency Description

The Montana Agricultural Experiment Station (AES) was established at Montana State University-Bozeman by the legislature in 1893 under Hatch Act authorization enacted by the U.S. Congress. Its mission, as provided in 20-25-222, MCA, is to: 1) conduct research relating to agriculture, natural resources, and rural life; and 2) distribute the resulting information among the people of Montana. The AES is the agricultural research component of the land-grant university's three-part mission of teaching, research, and service. The goal of the AES is to enhance the social and economic well-being of the state, national, and international communities through research programs addressing problems facing crop and livestock producers and consumers of agricultural products.

5109 00
Agricultural Experiment Station

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	230.80	0.00	230.80	230.80	0.00	230.80	230.80	230.80
Personal Services	8,779,326	0	8,779,326	8,778,373	0	8,778,373	17,155,295	17,557,699
Operating Expenses	1,520,369	0	1,520,369	1,530,440	0	1,530,440	3,088,508	3,050,809
Equipment	214,612	0	214,612	214,612	0	214,612	465,067	429,224
Debt Service	0	0	0	0	0	0	18,986	0
Total Costs	$10,514,307	$0	$10,514,307	$10,523,425	$0	$10,523,425	$20,727,856	$21,037,732
Current Unrestricted	10,514,307	0	10,514,307	10,523,425	0	10,523,425	20,727,856	21,037,732
Total Funds	$10,514,307	$0	$10,514,307	$10,523,425	$0	$10,523,425	$20,727,856	$21,037,732

5109-02
Montana University System
Program Summary

Organized Research - AES

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	214.3	0	0	214.3	0	0	214.3	214.3
Personal Services	$7,977,036	$311,976	$0	$8,289,012	$316,001	$0	$8,293,037	$16,582,049
Operating Expenses	1,540,356	(31,810)	0	1,508,546	(21,816)	0	1,518,540	3,027,086
Equipment and Intangible Assets	210,612	0	0	210,612	0	0	210,612	421,224
Debt Service	7,130	(7,130)	0	0	(7,130)	0	0	0
Total Costs	$9,735,134	$273,036	$0	$10,008,170	$287,055	$0	$10,022,189	$20,030,359
General Fund	$7,420,077	$273,062	$0	$7,693,139	$287,054	$0	$7,707,131	$15,400,270
Federal Special Revenue Funds	1,922,587	(43,114)	0	1,879,473	(43,114)	0	1,879,473	3,758,946
Proprietary Funds	392,470	43,088	0	435,558	43,115	0	435,585	871,143
Total Funds	$9,735,134	$273,036	$0	$10,008,170	$287,055	$0	$10,022,189	$20,030,359

Program Description

The Montana Agricultural Experiment Station (AES) Research Program includes 12 academic departments, service divisions, and laboratories located at Bozeman and seven Agricultural Research Centers located around the state. Research is also conducted using the land and facilities of private Montana farmers and ranchers. Research projects relating to agricultural activities and other uses of natural resources are undertaken to: 1) enhance knowledge of the social, environmental, and economic impacts of agricultural production activities and policies; 2) make research findings relevant and useful in their applications to the problems and choices facing the state; and 3) disseminate research findings to other scientists and private citizens. The experiment station is established by 20-25-222, MCA. Duties assigned in 20-25-225 through 20-25-236, MCA, include conducting studies relating to agriculture, natural resources, and rural life, operating experimental farms, operating the Montana Wool Laboratory, and operating the Montana Seed Laboratory.

Funding

In addition to general fund, the research program is funded from other current unrestricted funds, including: 1) federal Hatch Act funds; 2) federal regional research funds; and 3) sales and services revenue, as shown in Table 3. Federal funds are awarded by formula for federally approved research projects. Total revenues budgeted in the 1999 biennium are based on the estimated fiscal 1997 grant level. Sales and services revenue in the 1999 biennium is based on an average of the previous five years' actual revenue.

Table 3
AES Funding Sources - Organized Research Program
Fiscal 1996 through Fiscal 1999

Fund Source	Actual FY 1996	Appropriated FY 1997	Exec. Budget FY 1998	Exec. Budget FY 1999
General Fund	$7,420,076	$7,643,314	$7,693,139	$7,707,131
Federal Hatch Act	1,292,401	1,292,402	1,265,218	1,265,218
Federal Regional Research	630,186	630,187	614,255	614,255
Sales and Services	392,471	392,472	435,558	435,585
Totals	$9,735,134	$9,958,375	$10,008,170	$10,022,189

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 2.5 percent vacancy savings rate was applied in the 1997 biennium.

S109 02
Agricultural Experiment Station
Organized Research

Present Law Description			Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	311,976	316,001
02		Inflation/Deflation	4,508	10,840
03		Fixed Costs	(36,355)	(32,693)
		Total Statewide Adjustments	$280,129	$294,148
Significant Present Law Adjustments				
04	91005	Equipment Replacement	0	0
05	91050	Faculty Agreement - 97	0	0
		Total Significant PL Adjustments	$0	$0
Other Base Adjustments			($7,093)	($7,093)
		Grand Total Present Law Adjustments	$273,036	$287,055

LFD Issue **- The executive fiscal 1996 base budget for personal services includes $97,104 general fund transferred to the agency to pay for the costs of the negotiated salary increases in excess of the state pay plan. The transferred funds came from the state pay plan, which was appropriated to the Board of Regents as part of the lump sum to be allocated at the Board's discretion.**

The bases of the negotiated salary agreements were the stipulations that tuition or efficiencies pay for the increases and there be no general fund impact (see Agency Unfunded Salary Issue). However, the Agricultural Experiment Station has no access to tuition, and as Table 4 shows, it did not reduce its operating or equipment budgets to pay for the increases as planned. The agency decreased only the equipment and other budgets, as shown in the second portion of the table, and actually spent more than appropriated for operating expenses. This is one of two agencies that spent essentially all of its appropriation rather than effecting reductions to help pay for the salary increases.

Table 4
AES Appropriations & Operating Plan vs Actual Expenditures
Fiscal 1996

	Pers. Serv.	Operating	Equipment	Other	Total
	Operating Plan to Appropriations				
HB2/17*	$7,866,772	$1,516,790	$242,619	$11,856	$9,638,037
Operating Plan	7,974,221	1,455,816	208,000	0	9,638,037
Diff. from Approp.	($107,449)	$60,974	$34,619	$11,856	$0
	Expenditures to Appropriations				
HB2/17*	$7,866,772	$1,516,790	$242,619	$11,856	$9,638,037
Expenditures	7,977,036	1,540,356	210,612	7,130	9,735,134
Diff. from Approp.	($110,264)	($23,566)	$32,007	$4,726	($97,097)

* HB17 is the 1995 biennium pay plan bill

By leaving the additional general funded personal services in the base, then multiplying by 3.9 percent to annualize the pay plan, the Executive Budget continues funding the first year of the negotiated increases with general fund of approximately $100,880 in each year of the 1999 biennium. If the legislature wishes to fund the first year of the agency unfunded salaries with general fund, it can adopt the executive base. If the legislature does not wish to fund the negotiated salary increases

with general fund, it can choose to use another funding source, such as tuition, or require the agency to reduce services.

Options

1) **adopt the executive base;**

2) **adopt the executive base, but fund the negotiated increases in excess of pay plan with funds other than general fund; or**

3) **exclude the general fund transfer for negotiated salary increases from the base.**

2) Inflation/Deflation - These are from increased costs of utilities, up $9,260 in fiscal 1998 and $10,751 in fiscal 1999 and supplies, up $8,011 are partially offset by savings in telephone charges, down $13,225.

3) Fixed Costs - This adjustment is primarily due to reduced costs of insurance.

4) Equipment Replacement - Equipment is budgeted at the fiscal 1996 level of $210,612. It includes funds for vehicles, farm machinery, office equipment, computers and laboratory equipment.

LFD Comment **- Because no increase in equipment over the fiscal 1996 level is requested for the 1999 biennium, no adjustment appears in the table above.**

5109-15
Montana University System
Program Summary

Range Station - AES

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	16.5	0	0	16.5	0	0	16.5	16.5
Personal Services	$490,793	($479)	$0	$490,314	($5,457)	$0	$485,336	$975,650
Operating Expenses	11,690	133	0	11,823	210	0	11,900	23,723
Equipment and Intangible Assets	4,000	0	0	4,000	0	0	4,000	8,000
Total Costs	$506,483	($346)	$0	$506,137	($5,247)	$0	$501,236	$1,007,373
Proprietary Funds	506,483	(346)	0	506,137	(5,247)	0	501,236	1,007,373
Total Funds	$506,483	($346)	$0	$506,137	($5,247)	$0	$501,236	$1,007,373

Program Description

The Fort Keogh Livestock and Range Research Laboratory at Miles City is a cooperative program of the U.S. Department of Agriculture, Agricultural Research Service, and the state through the Montana Agricultural Experiment Station. The purpose of the laboratory is to improve efficiency of livestock production from rangeland resources in the Northern Great Plains.

Funding

The program is funded entirely from revenue generated by commodity sales.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5109 15
Agricultural Experiment Station
U.S. Range Station

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(479)	(5,457)
02	Inflation/Deflation	133	210
03	Fixed Costs	0	0
	Total Statewide Adjustments	($346)	($5,247)
Significant Present Law Adjustments			
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$0	$0
	Grand Total Present Law Adjustments	($346)	($5,247)

1) Personal Services -This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 2.5 percent vacancy savings rate was applied in the 1997 biennium.

4) Equipment Replacement - Equipment is budgeted at the fiscal 1996 level of $4,000.

LFD Comment - **Because no increase in equipment over the fiscal 1996 level is requested for the 1999 biennium, no adjustment appears in the table above.**

5100-10
Montana University System — **Montana Extension Service**
Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	117.67	0	0	117.67	0	0	117.67	117.67
Personal Services	$4,566,278	$255,056	$0	$4,821,334	$255,062	$0	$4,821,340	$9,462,674
Operating Expenses	522,627	14,813	0	537,440	12,329	0	534,956	1,072,396
Equipment and Intangible Assets	41,058	3,891	0	44,949	3,891	0	44,949	89,898
Debt Service	3,891	(3,891)	0	0	(3,891)	0	0	0
Total Costs	$5,133,854	$269,869	$0	$5,403,723	$267,391	$0	$5,401,245	$10,804,968
General Fund	$2,973,815	$135,340	$0	$3,109,155	$132,862	$0	$3,106,677	$6,215,832
Federal Special Revenue Funds	2,160,039	134,529	0	2,294,568	134,529	0	2,294,568	4,589,136
Total Funds	$5,133,854	$269,869	$0	$5,403,723	$267,391	$0	$5,401,245	$10,804,968

Mission Statement

The Montana State University Extension Service is an educational resource dedicated to improving people's lives by providing research-based knowledge to strengthen the social, economic, and environmental well-being of families, communities, and agricultural enterprises.

Agency Description

The Montana Extension Service (MES) was established in 1914 as a result of the federal Smith-Lever Act. The MES mission is disseminating and encouraging practical use of research about agricultural production and marketing, human resource development, and home economics. It serves 53 of the 56 counties through 49 county extension offices. Two additional counties (Petroleum and Wheatland) contract for some services with neighboring counties. (Meagher County currently has no services). The MES has its main operations housed on the MSU-Bozeman campus. Background materials for its educational efforts are developed: 1) by Extension Service, Agricultural Experiment Station, and other MSU faculty; and 2) from research information available through faculty from other public and private universities and colleges, other state and federal agency personnel, and researchers in the private sector.

5110 00
Montana Extension Service — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	117.58	0.00	117.58	117.58	0.00	117.58	0.00	117.58
Personal Services	4,821,334	0	4,821,334	4,821,340	0	4,821,340	9,351,283	9,642,674
Operating Expenses	537,440	0	537,440	534,956	0	534,956	1,037,282	1,072,396
Equipment	44,949	0	44,949	44,949	0	44,949	86,021	89,898
Debt Service	0	0	0	0	0	0	3,891	0
Total Costs	$5,403,723	$0	$5,403,723	$5,401,245	$0	$5,401,245	$10,478,477	$10,804,968
Current Unrestricted	5,403,723	0	5,403,723	5,401,245	0	5,401,245	10,478,477	10,804,968
Total Funds	$5,403,723	$0	$5,403,723	$5,401,245	$0	$5,401,245	$10,478,477	$10,804,968

Funding

The Extension Service is funded from two sources: 1) general fund; and 2) federal Smith-Lever funds.

LFD Issue - Federal funds in the 1999 biennium are included at the prior biennium appropriated level of $2,294,568. However, the agency is currently receiving only $2,087,277 per year, which is $207,291 less than budgeted. The agency has no indication that Congress will increase that amount in the 1999 biennium. The legislature may wish to reduce the appropriation to that currently being received.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 2.5 percent vacancy savings rate was applied in the 1997 biennium.

5110 03
Montana Extension Service
Public Service

Present Law Description		Present Law Adjustments/Issues: Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	255,056	255,062
02	Inflation/Deflation	(5,463)	(5,272)
03	Fixed Costs	20,203	19,150
	Total Statewide Adjustments	$269,796	$268,940
Significant Present Law Adjustments			
04 91005	Equipment Replacement	0	0
	Total Significant PL Adjustments	$0	$0
Other Base Adjustments		$70	($1,552)
	Grand Total Present Law Adjustments	$269,866	$267,388

Table 5
MES Appropriations & Operating Plan vs Actual Expenditures
Fiscal 1996

	Pers. Serv.	Operating	Equipment	Other	Total
	Operating Plan to Appropriations				
HB2/17*	$4,489,079	$518,590	$44,963	$0	$5,052,632
Operating Plan	4,623,607	518,825	44,963	0	5,187,395
Diff. from Approp.	($134,528)	($235)	$0	$0	($134,763)
	Expenditures to Appropriations				
HB2/17*	$4,489,079	$518,590	$44,963	$0	$5,052,632
Expend	4,566,278	522,630	41,058	3,891	5,133,857
Diff. from Approp.	($77,199)	($4,040)	$3,905	($3,891)	($81,225)

* less federal funding shortfall of $134,528

LFD Issue - The executive fiscal 1996 base budget for personal services includes $81,225 general fund transferred to the agency to pay for the costs of the negotiated salary increases in excess of the state pay plan. The transferred funds came from the state pay plan, which was appropriated to the Board of Regents as part of the lump sum to be allocated at the Board's discretion.

The bases of the negotiated salary agreements were the stipulations that tuition or efficiencies pay for the increases and there be no general fund impact (see Agency Unfunded Salary Issue). However, the Montana Extension Service has no access to tuition, and as Table 5 shows, it reduced its operating budgets only slightly to pay for the salary increases. Slight decreases in

equipment offset other increases, as shown in the second portion of the table, but the agency spent more than appropriated for personal services and operating expenses. This is one of two agencies that spent essentially all of its appropriation rather than effecting reductions to help pay for the salary increases.

By leaving the additional general funded personal services in the base, then multiplying by 3.9 percent to annualize the pay plan, the Executive Budget continues funding the first year of the negotiated increases with general fund of approximately $84,400 in each year of the 1999 biennium. If the legislature wishes to fund the first year of the agency unfunded salaries with general fund, it can adopt the executive base. If the legislature does not wish to fund the negotiated salary increases with general fund, it can choose to use another funding source, such as tuition, or require the agency to reduce services.

Options

1) **adopt the executive base;**

2) **adopt the executive base, but fund the negotiated increases in excess of pay plan with funds other than general fund; or**

3) **exclude the general fund transfer for negotiated salary increases from the base.**

2) Inflation/Deflation - These amounts are primarily due to decreased costs of telephone service, down $6,447 offset some by increased utilities charges.

3) Fixed Costs - This adjustment primarily represents increased cost of insurance.

4) Equipment Replacement - Equipment is funded at the fiscal 1996 level including the amount expended for debt service for a copier in fiscal 1996. Equipment includes 26 replacement computers, 8 replacement printers, 2 portable video projectors, a color scanner, a publishing work station, and computer software.

5100-11
Montana University System
Agency Proposed Budget

Forestry & Conservation Experiment Station

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	13.74	0	0	13.74	0	0	13.74	13.74
Personal Services	$622,219	$34,067	$0	$656,286	$33,972	$0	$656,191	$1,312,477
Operating Expenses	99,052	1,126	0	100,178	1,353	0	100,405	200,583
Equipment and Intangible Assets	7,881	0	0	7,881	0	0	7,881	15,762
Total Costs	$729,152	$35,193	$0	$764,345	$35,325	$0	$764,477	$1,528,822
General Fund	$729,152	$35,193	$0	$764,345	$35,325	$0	$764,477	$1,528,822
Total Funds	$729,152	$35,193	$0	$764,345	$35,325	$0	$764,477	$1,528,822

Mission Statement

The Montana Forest and Conservation Experiment Station was established by the legislature in 1937 to conduct research on the forests and forest land resources of Montana.

Agency Description

The Montana Forest and Conservation Experiment Station (FCES) was established by the legislature in 1937 as a non-profit organization devoted to the scientific investigation of natural resource problems. The station serves as the research unit of the University of Montana School of Forestry with the Dean of the School of Forestry functioning as the station director. The FCES purposes include the study of relationships between forests and other dimensions of the environment, the discovery of ways to improve the products of forest lands, and the completion and publication of reports about forestry research. Research is carried on at Lubrecht Experimental Forest and at other locations in Montana in cooperation with private, state, and federal agencies. The station is established in 20-25-241, MCA. Purposes as outlined in 20-25-242, MCA, include studies of forest land resources, timber, and relationships between forests and water, pasturage, and recreation.

5111 00
Forestry & Conservation Experiment Station

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	13.74	0.00	13.74	13.74	0.00	13.74	0.00	13.74
Personal Services	656,286	0	656,286	656,191	0	656,191	1,293,312	1,312,477
Operating Expenses	100,178	0	100,178	100,405	0	100,405	179,832	200,583
Equipment	7,881	0	7,881	7,881	0	7,881	12,881	15,762
Total Costs	$764,345	$0	$764,345	$764,477	$0	$764,477	$1,486,025	$1,528,822
Current Unrestricted	764,345	0	764,345	764,477	0	764,477	1,486,025	1,528,822
Total Funds	$764,345	$0	$764,345	$764,477	$0	$764,477	$1,486,025	$1,528,822

Funding

The Forestry and Conservation Experiment Station is funded entirely with general fund.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5111 02 Forestry & Conservation Experiment Station Research			Present Law Adjustments/Issues	
Present Law Description			Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	19,148	19,053
02		Inflation/Deflation	369	596
03		Fixed Costs	39	39
		Total Statewide Adjustments	$19,556	$19,688
Significant Present Law Adjustments				
04	91001	Faculty Agreement - 97	14,919	14,919
05	91002	Equipment Replacement	0	0
		Total Significant PL Adjustments	$14,919	$14,919
Other Base Adjustments			$718	$718
		Grand Total Present Law Adjustments	$35,193	$35,325

1) Personal Services - Annualization of the pay increases authorized in the 1997 biennium and full funding of authorized employees is reflected. No vacancy savings is applied to the station.

4) Faculty Agreement - 1997 - This item represents the cost of pay increases in excess of the state pay plan which were a product of collaborative negotiations. One requirement of the agreements was that pay increases beyond the state pay plan would not be funded with general fund but that the agencies must find other sources or make base reductions to cover the increased cost of the higher salaries. The forestry station made permanent reductions in FTE, from 15.30 to 13.74, which allow the cost of the higher pay levels granted in the 1997 biennium to be covered on an ongoing basis within the current level general fund support provided.

LFD Comment **- For a discussion of this issue, please see the discussion of "Research/Extension Agency Unfunded Salaries" at the beginning of this section.**

5) Equipment Replacement - Equipment is funded at the fiscal 1996 level of $7,881. Equipment includes global positioning (GPS) units, digitizers, and computer upgrades.

5100-12
Montana University System — **Bureau of Mines**
Agency Proposed Budget

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	34.58	0	0	34.58	0	0	34.58	34.58
Personal Services	$1,404,297	$34,719	$0	$1,439,016	$36,266	$0	$1,440,563	$2,879,579
Operating Expenses	496,109	69,345	0	565,454	69,254	0	565,363	1,130,817
Equipment and Intangible Assets	36,851	0	0	36,851	2,095	0	38,946	75,797
Grants	150	0	0	150	150	0	300	450
Debt Service	294	0	0	294	0	0	294	588
Total Costs	$1,937,701	$104,064	$0	$2,041,765	$107,765	$0	$2,045,466	$4,087,231
General Fund	$1,341,513	($9,748)	$0	$1,331,765	($6,047)	$0	$1,335,466	$2,667,231
State/Other Special Revenue Funds	552,237	113,763	0	666,000	113,763	0	666,000	1,332,000
Proprietary Funds	43,951	49	0	44,000	49	0	44,000	88,000
Total Funds	$1,937,701	$104,064	$0	$2,041,765	$107,765	$0	$2,045,466	$4,087,231

Mission Statement

To conduct research relating to minerals and mining.

Agency Description

The Bureau of Mines is a public service and research agency at Montana Tech of the University of Montana in Butte. The bureau is charged with promoting the effective use of mineral resources through investigation of their geology, production, treatment, and economics. It disseminates information through publications and replies to individual inquiries. The bureau's work includes field and laboratory study, collection of samples and information, interpretation of data, and compilation of statistics on all mineral resources, metallic and nonmetallic minerals, fuels, and groundwater.

5105 00
Bureau of Mines — **Biennium Budget Comparison**

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	34.58	0.00	34.58	34.58	0.00	34.58	38.19	34.58
Personal Services	$1,439,016	0	$1,439,016	$1,440,563	0	$1,440,563	$2,895,313	$2,879,579
Operating Expenses	565,454	0	565,454	565,363	0	565,363	953,966	1,130,817
Equipment	36,851	0	36,851	38,946	0	38,946	108,129	75,797
Grants	150	0	150	300	0	300	150	450
Debt Service	294	0	294	294	0	294	14,590	588
Total Costs	$2,041,765	$0	$2,041,765	$2,045,466	$0	$2,045,466	$3,972,148	$4,087,231
General Fund	$1,331,765	$0	$1,331,765	$1,335,466	$0	$1,335,466	$2,665,960	$2,667,231
State/Other Funds	666,000		666,000	666,000		666,000	1,218,237	1,332,000
Proprietary	44,000		44,000	44,000		44,000	87,951	88,000
Total Funds	$2,041,765	$0	$2,041,765	$2,045,466	$0	$2,045,466	$3,972,148	$4,087,231

Funding

The Bureau of Mines is funded from three sources: 1) general fund; 2) revenue from the sale of maps and publications, totalling $44,000 each year; and 3) Resource Indemnity Trust funds of $666,000 each year for the Groundwater Assessment program.

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5105 11 Montana Tech of the University of Montana Bureau of Mines Present Law Description		Present Law Adjustments/Issues Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments			
01	Personal Services	(13,411)	(11,864)
02	Inflation/Deflation	(1,200)	(173)
03	Groundwater Full Funding	70,545	69,427
Total Statewide Adjustments		$55,934	$57,390
Significant Present Law Adjustments			
04 91007	Faculty Agreement - 97	48,130	48,130
Total Significant PL Adjustments		$48,130	$48,130
Other Base Adjustments		$0	$2,245
Grand Total Present Law Adjustments		$104,064	$107,765

1) Personal Services - This amount reflects the annualization of the pay increases authorized in the 1997 biennium and funding of authorized employees with a 3 percent vacancy savings rate. A 2.5 percent vacancy savings rate was applied in the 1997 biennium.

4) Groundwater Full Funding - 85-2-905, MCA allocates $666,000 each year from the Resource Indemnity and Groundwater Assessment Tax to the Bureau for groundwater assessment activities. This adjustment increases expenditures to the statutory level.

LFD Issue **- Statute allocates a maximum of $666,000 each year, or 14.1 percent of the Resource Indemnity and Groundwater Assessment Tax (RIGWAT) plus a portion of the metal mines tax, to the groundwater assessment program. Fiscal 1996 actual expenditures totaled $552,237. Fiscal 1997 estimated revenue is $482,000, and current estimates for the 1999 biennium are $486,000 in fiscal 1998 and $498,000 in fiscal 1999. The legislature may wish to either appropriate the current amount estimated or restrict the appropriation authority to the groundwater assessment program in the Bureau of Mines.**

5) Faculty Agreement - 1997 - Represents the cost of pay increases in excess of the state pay plan which were a product of collaborative negotiations. One requirement of the agreement was that pay increases beyond the state pay plan would not be funded with general fund but that the agencies must find other sources or make base reductions to cover the increased cost of the higher salaries. The Bureau made permanent reductions in FTE, from 38.19 to 34.58, which allow the cost of the higher pay levels granted in the 1997 biennium to be covered on an ongoing basis within the current level general fund support provided.

LFD Comment **- For a discussion of this issue, please see the discussion of "Research/Extension Agency Unfunded Salaries" at the beginning of this section.**

5100-19
Montana University System
Agency Proposed Budget

Fire Services Training School

Budget Item	Base Budget Fiscal 1996	PL Base Adjustment Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	PL Base Adjustment Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Exec. Budget Fiscal 98-99
FTE	5.17	0	0	5.17	0	0	5.17	5.17
Personal Services	$194,954	$19,964	$0	$214,918	$20,373	$0	$215,327	$430,245
Operating Expenses	60,223	(29,671)	0	30,552	(32,463)	0	27,760	58,312
Equipment and Intangible Assets	0	24,773	0	24,773	24,773	0	24,773	49,546
Total Costs	$255,177	$15,066	$0	$270,243	$12,683	$0	$267,860	$538,103
General Fund	$255,177	$15,066	$0	$270,243	$12,683	$0	$267,860	$538,103
Total Funds	$255,177	$15,066	$0	$270,243	$12,683	$0	$267,860	$538,103

Mission Statement

To develop the capacity of local governments for the protection of citizens, their property and the tax base, from the harm caused by unwanted fires, injury accidents, release of hazardous materials, and other emergencies.

Agency Description

The Fire Services Training School (FSTS), authorized in 20-31-102, MCA, and located at the Great Falls vocational-technical center, organizes, supervises, and coordinates training and education for state fire services personnel in accordance with local needs and the standards established by the Board of Regents. The FSTS: 1) administers and maintains a resource center for use by localities; 2) provides regional, local, and statewide training programs for fire services personnel; 3) develops courses and training materials; 4) maintains a network of unsalaried field instructors; and 5) offers a fire services professional certification program. The school is attached to the Montana Extension Service for administrative purposes.

5119 00
Fire Services Training School

Biennium Budget Comparison

Budget Item	Present Law Fiscal 1998	New Proposals Fiscal 1998	Total Exec. Budget Fiscal 1998	Present Law Fiscal 1999	New Proposals Fiscal 1999	Total Exec. Budget Fiscal 1999	Total Biennium Fiscal 96-97	Total Exec. Budget Fiscal 98-99
FTE	5.17	0.00	5.17	5.17	0.00	5.17	0.00	5.17
Personal Services	214,918	0	214,918	215,327	0	215,327	410,190	430,245
Operating Expenses	30,552	0	30,552	27,760	0	27,760	88,883	58,312
Equipment	24,773	0	24,773	24,773	0	24,773	17,554	49,546
Total Costs	$270,243	$0	$270,243	$267,860	$0	$267,860	$516,627	$538,103
Current Unrestricted	270,243	0	270,243	267,860	0	267,860	516,627	538,103
Total Funds	$270,243	$0	$270,243	$267,860	$0	$267,860	$516,627	$538,103

Funding

The program is funded from state general fund and a nonappropriated current designated fund which receives income from charges for training, testing, and information.

LFD Comment **- In the university accounting system, a current designated fund is a revolving fund that receives funds from a specific source for the provision of a specific service. While the Fire Services Training School charges are not appropriated by dollar amount in HB 2, they are paid into a revolving fund and are appropriated by the legislature in language, which states... "all funds...(not otherwise appropriated by the legislature)...are appropriated contingent on approval of the comprehensive program budget by the board of regents by October 1 of each year."**

Executive Present Law

The table above shows the primary changes to the adjusted base budget included in the executive present law. Statewide adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

5119 03 **Fire Services Training School** **Public Service** Present Law Description			Present Law Adjustments/Issues Adjustments Fiscal 1998	Adjustments Fiscal 1999
Statewide Present Law Adjustments				
01		Personal Services	19,964	20,373
02		Inflation/Deflation	(1,454)	(1,164)
03		Fixed Costs	2,647	(215)
		Total Statewide Adjustments	$21,157	$18,994
Significant Present Law Adjustments				
04	91001	Expenditure Realignment	(30,865)	(31,085)
05	91002	Equipment Replacement	24,773	24,773
		Total Significant PL Adjustments	($6,092)	($6,312)
Other Base Adjustments			$0	$0
		Grand Total Present Law Adjustments	$15,065	$12,682

1) Personal Services - The table reflects the annualization of the pay increases authorized in the 1997 biennium and full funding of authorized employees. No vacancy savings is applied.

2) Inflation/Deflation - This amount is primarily due to decreased costs of telephone service.

3) Fixed Costs - Audit charges were paid by MSU in the current biennium. In fiscal 1998 there is $3,335 budgeted for the audit as a biennial appropriation. Other fixed costs include insurance and warrant writing fees.

LFD Comment **- In fiscal 1996 the FSTS paid $1,451 from its biennial audit cost appropriation of $3,082, leaving $1,631 available for fiscal 1997. As a result, the $3,335 request for the 1999 biennium represents an increase over the base of $1,884 in fiscal 1996.**

4) Expenditure Realignment - In fiscal 1996 the school used general fund appropriated for equipment to fund increased operating expenses and made equipment purchases with designated funds. These designated funds are generated from charges the school makes for testing, training, and informational materials. This adjustment realigns the expenditure base in agreement with legislative appropriation. Thus equipment will be budgeted from general fund and nonappropriated designated funds will be used for some operating expenses.

LFD Comment **- A base budget is developed by determining how much of base year expenditures are expected to be ongoing in the next biennium. In this case, the agency inflated the operating expenses by using funds appropriated for equipment and some personal services. It then asked for a base budget containing all operating expenses and full re-instatement of the personal services and equipment. The Executive Budget allows re-instatement of the personal services and equipment, but correctly removes those operating expenses that should have been paid through the designated fund. This adjustment restores the agency budget to an ongoing level.**

5) Equipment Replacement - In fiscal 1996, as noticed above, the school purchased $29,220 of equipment from its designated fund in lieu of using general fund. With the above realignment, equipment is budgeted from general fund. The budget includes replacement of one vehicle each year of the 1999 biennium.

LONG-RANGE PLANNING

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

Long-Range Building Program

Treasure State Endowment Program

Oil Overcharge Funds

State Buildings Energy Conservation

Resource Indemnity Trust Interest Accounts

Cultural and Aesthetic Grant Program

Information Technology Bond Proposal

----------Committee Members----------

House	Senate
Representative Ernest Bergsagel (Chair)	Senator Tom Beck (Vice-Chair)
Representative Matt McCann	Senator J.D. Lynch
Representative Tom Zook	

----------Fiscal Analyst Staff----------

Nan LeFebvre

----------OBPP Representative----------

Guy Almquist
Jane Hamman

Long-Range Building Program

Background

The Long-Range Building Program (LRBP) was initiated in 1965 to provide funding for construction and maintenance of state buildings. The program was developed in order to present a single, comprehensive and prioritized plan to allocate state resources for the purpose of capital construction and maintenance of state-owned facilities.

Historically, the LRBP has been funded with a combination of cash accounts and bonding. The various types of cash accounts include state and federal special revenue funds, miscellaneous other funds (such as private and auxiliary), and the capital projects fund. Although the capital projects fund does not represent the largest portion of funding for capital projects, it is often referred to as the state's "cash building program" or LRBP account. Prior to fiscal 1997, the LRBP received the majority of cash funding from cigarette taxes authorized in 16-11-119, MCA, as well as Architecture & Engineering Division (A&E) supervisory fees, and retained interest earnings.

The historical revenue available in the LRBP account for major maintenance and construction projects is shown in Table 1.

Table 1
Long-Range Building Program Revenue for Cash Projects
(In Millions)

Biennium	Revenue
1985	$10.87
1987	10.52
1989	6.25
1991	7.52
1993	8.38
1995	5.72
1997	7.83
1999	9.16

Part of the decline in LRBP revenues is attributable to a steady decline in cigarette sales. In addition, Chapter 548, Laws of 1993, directed 11.1 percent of the cigarette tax go to the operation and maintenance of state veterans' nursing homes and reduced the percentage allocated for cash projects from 29.1 percent to 18.0 percent. The 53rd Legislature appropriated $2.6 million general fund to offset the revenue loss caused by reallocation of the cigarette tax for the 1995 biennium.

The net revenue projected to be available for cash projects had declined to about $4.6 million by the 1995 biennium. The Governor recommended legislation to reallocate to the LRBP account the 12 percent of coal severance taxes which had been allocated temporarily to the highway reconstruction trust fund. This recommendation was approved by the 54th Legislature and the reallocation was made permanent in Chapter 456, Laws of 1995. This new distribution of coal severance taxes increased the revenue available for cash projects by over $8.0 million per biennium. Based on assumptions adopted by the Revenue Oversight Committee (ROC), approximately $9.2 million of coal severance taxes will be available for the LRBP during the 1999 biennium. When combined with cigarette taxes and other miscellaneous revenues, the result is net revenue reflected in Table 2.

LFD Comment - **The Governor's recommendation for reallocating the coal severance tax, which was approved by the 54th Legislature, included a provision for the one-time-only transfer of $5.2 million from the LRBP to the general fund in fiscal 1996. Consequently, only $3.6 million of the $8.8 million in coal severance tax proceeds distributed to the LRBP was made available for capital projects during the 1997 biennium.**

Table 2
Capital Projects Fund
Fund Balance Projection - 1999 Biennium

Estimated Beginning Fund Balance		$1,884,544
Revenues		
Cigarette Tax	$4,185,000	
Coal Severance Tax	9,247,000	
Interest Earnings	751,813	
Supervisory Fees	602,020	
DEQ Transfer - State Buildings Energy Savings	414,865	
Total Revenues		$15,200,698
Funds Available		$17,085,242
Expenditures		
Operating Costs - A & E Division (Current & Modified Requests)	($1,832,278)	
Debt Service - 1996D Issue	(3,605,720)	
Debt Service - 1997 Issue*	(2,486,990)	
Total Expenditures - Excluding Capital Projects		($7,924,988)
Funds Available For Capital Projects And/Or Debt Service		$9,160,254
Funding Proposals		
Capital Construction Program - LRBP Projects Only		($8,615,500)
Estimated Ending Fund Balance		$544,754

*Balance of the bonded program approved by the 54th Legislature - coal severance tax portion only.

LFD Issue **- The projected ending fund balance shown in Table 2 is $544,754, or 3.2 percent of the total estimated revenue available to the capital projects fund ($17,085,242). National fiscal experts suggest a 3 to 5 percent fund balance to be fiscally prudent. In regard to the level of anticipated revenue, the suggested range would equate to an ending fund balance of $512,557 to $854,262. The legislature may wish to consider budgeting a higher ending fund balance than what is projected due to the level of uncertainty between expenditures and revenues. For example, all of the revenue estimates may not be realized due to a change in economic conditions. On the other hand, over 35 percent of the expenditures are for debt service payments which are not subject to change. Therefore, if revenue shortfalls should occur, reductions would have to be made either in operating costs for A&E or for the capital projects approved in HB 5.**

Governor's Budget Proposals

The Governor is recommending three specific proposals for legislative consideration:

1) A $60.5 million cash program, involving 45 projects: 13 funded solely by LRBP cash, 1 funded with a combination of LRBP and federal special revenue, and 31 funded with state special revenue, federal special revenue, other funds, or some combination of the three. Of the $60.5 million total, $8.6 million will be funded from the LRBP account and $51.9 million will come from the other funding sources.

2) A $67.5 million bonded program for 13 projects, including $61.8 million to be funded by the issuance of general obligation (G.O.) bonds. Of the $67.5 million, $41.6 million or 62 percent of the total request is to be used for corrections facilities; and

3) two public-private partnership lease/purchase projects in Helena.

Cash Program

First, as shown in Table 3, there are 14 priority cash projects recommended to be funded with $8.6 million of coal tax, cigarette tax, interest earnings, and fees available in the capital projects fund [abbreviated LRBP in the table below and in HB 5]. Projects include re-roofing, correcting structural problems, correcting code deficiencies, and continuing to meet ADA (federal Americans with Disabilities Act) requirements. When the revenue sources of other state agencies are included, the complete cash program recommendations for the 1999 biennium include 10 agencies with 45 projects at a total cost of $60.5 million. Other state agency funding sources include, for example, state special revenue license fee projects for the Department of Fish, Wildlife and Parks, a variety of federally-funded projects for the Department of Military Affairs, and auxiliary and private funds for various Montana University System projects.

Table 3
Long Range Building Program Proposal
Funded With Current Revenues
1998 - 1999 Biennium

Agency/Project	L.R.B.P.	State Special Revenue Funds	Federal Special Revenue Funds	Other Funds	Total
Department Of Administration					
Repair Limestone On Museum And Repair Masonry On Other Complex Buildings	$300,000				$300,000
Plan Lease Reduction Program, Helena	350,000				350,000
Roof Repair & Replacement, Capitol Complex	279,000				279,000
Hazardous Materials Mitigation, Statewide	720,000				720,000
State Building Energy Retrofit, Statewide				1,000,000	1,000,000
Department of Administration Sub-Totals	$1,649,000	$0	$0	$1,000,000	$2,649,000
Department Of Agriculture					
Modify State Grain Lab To Comply With ADA Standards	$40,000				$40,000
Department of Agriculture Sub-Totals	$40,000	$0	$0	$0	$40,000
Department Of Corrections					
Secure Female Facility And Renovations, MYAP, Boulder	$1,450,000				$1,450,000
Xanthopoulos Building Renovations, MSP, Warm Springs	600,000				600,000
MCE Improvements/Expansion, MSP				400,000	400,000
Department of Corrections Sub-Totals	$2,050,000	$0	$0	$400,000	$2,450,000
Department Of Fish, Wildlife & Parks					
Secure Water Supply, Giant Springs Trout Hatchery		$753,847			$753,847
Bluewater Hatchery Renovation, Phase III		3,316,319			3,316,319
Construct Parks Interpretive Center		1,250,000			1,250,000
Secure Water Supply, Big Springs Trout Hatchery		1,620,451			1,620,451
Cultural & Historic Parks Improvements		690,000			690,000
Habitat Montana		6,200,000			6,200,000
Future Fisheries Improvement Program		1,000,000			1,000,000
Miles City Hatchery Repairs		305,500			305,500
Capitol Complex Irrigation Improvements				225,000	225,000
Road Improvements, State Parks		1,768,000			1,768,000
Water Based Recreation Parks Program		642,500	450,000		1,092,500
Administrative Facilities Repairs & Improvements		687,000			687,000
Wildlife Habitat Maintenance		825,000	100,000		925,000
Fishing Access Site Protection, Statewide		650,000	50,000		700,000
Waterfowl Stamp Protection		165,000			165,000
Fishing Access Site Acquisition, Statewide		466,000			466,000
Bighorn Sheep Program		330,000			330,000
Fishing Access Site Maintenance, Statewide		275,000			275,000
Department of Fish, Wildlife & Parks Sub-Totals	$0	$20,944,617	$600,000	$225,000	$21,769,617
Department Of Labor					
Install Elevator, Missoula Job Service		$87,000			$87,000
Department of Labor Sub-Totals	$0	$87,000	$0	$0	$87,000

Table 3 (continued)
Long Range Building Program Proposal
Funded With Current Revenues
1998 - 1999 Biennium

Agency/Project	L.R.B.P.	State Special Revenue Funds	Federal Special Revenue Funds	Other Funds	Total
Department Of Military Affairs					
Demolition Of Poplar Armory	$300,000				$300,000
Furnace Replacement, Womack Armory	300,000				300,000
Replace Roof, OMS #3, Helena	30,000		90,000		120,000
Federal Spending Authority			800,000		800,000
Eastern Montana State Veterans' Cemetery, Phase 1		52,500	52,500		105,000
Track Parking, Fort Harrison			500,000		500,000
BOQ/BEQ, Fort Harrison			1,700,000		1,700,000
CSMS, Fort Harrison			75,000		75,000
Department of Military Affairs Sub-Totals	$630,000	$52,500	$3,217,500	$0	$3,900,000
Montana University System					
Code Compliance/Disability Access, All Campuses	$2,900,000				$2,900,000
Roof Replacements, All Campuses	971,500				971,500
Authority Only - Montana State University				5,000,000	5,000,000
Authority Only - University Of Montana				16,050,000	16,050,000
Montana University System Sub-Totals	$3,871,500	$0	$0	$21,050,000	$24,921,500
Department Of Natural Resources & Conservation					
Maintenance Improvement Projects, Statewide	$200,000				$200,000
Fire Cache/Garage, Plains Unit	175,000				175,000
Dept of Natural Resources & Conservation Sub-Totals	$375,000	$0	$0	$0	$375,000
Department Of Public Health & Human Services					
Miscellaneous Maintenance And Improvements, Montana Veterans' Home		$406,000			$406,000
Dept of Public Health & Human Services Sub-Totals	$0	$406,000	$0	$0	$406,000
Department Of Transportation					
Repair, Maintenance And Minor Construction Projects, Statewide		$1,415,000			$1,415,000
Equipment Buildings, Statewide		2,535,000			2,535,000
Department of Transportation Sub-Totals	$0	$3,950,000	$0	$0	$3,950,000
Total Current Revenue All Departments	$8,615,500	$25,440,117	$3,817,500	$22,675,000	$60,548,117

Bonded Program

Second, the issuance of G.O. bonds will be recommended for funding 13 construction projects. Top priorities include major expansion of the Montana State Prison, continuation of state-county/regional partnership construction of regional detention centers to meet critical space needs for both state and local inmates, campus expansion/consolidation at the Pine Hills School in Miles City, continuation of underground utilities system work at Montana State University-Bozeman, renovation and restoration of the state Capitol, and renovation/completion of the Montana State University College of Technology-Great Falls.

Table 4
Long Range Building Program Proposal
Funded With Bonded Debt
1998 - 1999 Biennium

Agency/Project	C.P.F.	State Special Revenue Funds	Federal Special Revenue Funds	Other Funds	Total
Department Of Administration					
Critical Project Requirements, Capitol Renovation	$3,458,700				$3,458,700
Historic Restoration, Montana State Capitol	2,281,000				2,281,000
Sub-Totals	$5,739,700	$0	$0	$0	$5,739,700
Department Of Corrections					
Three Additional Regional Correctional Facilities	$11,400,000		$2,400,000		$13,800,000
New Food Service/Kitchen Facility, MSP, Deer Lodge	2,150,000				2,150,000
Campus Expansion/Consolidation, PHS, Miles City	11,300,000				11,300,000
192 Bed, Infrastructure And Services Expansion And Fire/Life Safety Improvements, MSP, Deer Lodge	12,074,000				12,074,000
Expansion Unit And Land Acquisition, WCC, Billings	2,322,000				2,322,000
Sub-Totals	$39,246,000	$0	$2,400,000	$0	$41,646,000
Montana University System					
Replace Primary Electrical Distribution, MSU-Billings	$1,700,000			$300,000	$2,000,000
Replace HVAC System, Science Complex, UM-Missoula	1,200,000				1,200,000
Utility Tunnel Extension, MSU-Bozeman	6,856,000			2,944,000	9,800,000
Repair/Replace Primary Electrical Distribution, MSU-Northern	1,000,000				1,000,000
Boiler Plant And Utility Distribution, UM-Dillon	1,117,000				1,117,000
Facility Renovation/Completion, MSU-COT-GF	4,950,000				4,950,000
Sub-Totals	$16,823,000	$0	$0	$3,244,000	$20,067,000
Total Bonded Debt (All Departments)	$61,808,700	$0	$2,400,000	$3,244,000	$67,452,700

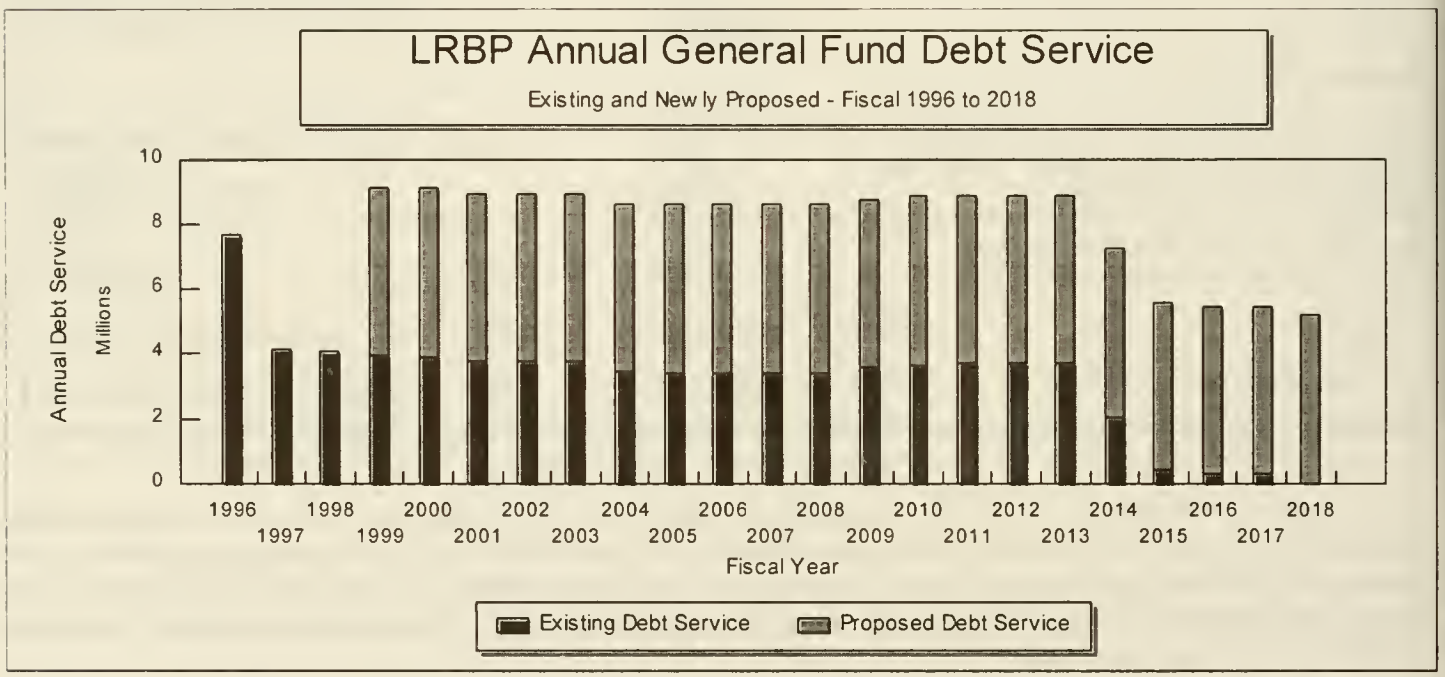
As shown in Table 4, the recommended G.O. bond projects total $67.5 million - including $61.8 million in bonded debt. Debt service payments for the capital projects will be made primarily with general fund and the Executive Budget balance sheet contains $4.5 million for this purpose. During the hearings on the recommended G.O. bond bill, the legislature will be provided with schedules showing projected bond issuance dates, construction timetables, and revenue sources to retire the bonded debt for each proposed facility.

LFD Issues - **The Governor's Budget includes a cost of $2.25 million per fiscal year or a total of $4.5 million during the 1999 biennium for debt service costs that would occur if the Governor's LRBP bonded program is approved by the 1997 legislature. There is no constitutional or statutory limit on the amount of debt the state can issue. However, bond issues represent long-term commitment for annual debt service obligations. Consequently, when considering the long-term impact of issuing an additional $61.8 million in G.O. debt, a number of factors warrant legislative consideration.**

1) Annualized Cost - The projected debt service cost of $2.25 million per year does not reflect the annual cost for the issuance of the entire $61.8 million amount. The initial phase for building projects involves hiring of an architect who then designs the building/project. G.O. bonds for LRBP projects are not issued until construction is ready to begin. Consequently, if the Governor's bonded program is approved, the entire $61.8 million will not be bonded for immediately. Rather, two or three bond issues will occur over the next few years, as funding becomes necessary. The true annual debt service cost, once the entire $61.8 million is issued, would result in $5.2 million per year or $10.4 million per biennium (based on a 20-year term at 5.5 percent interest).

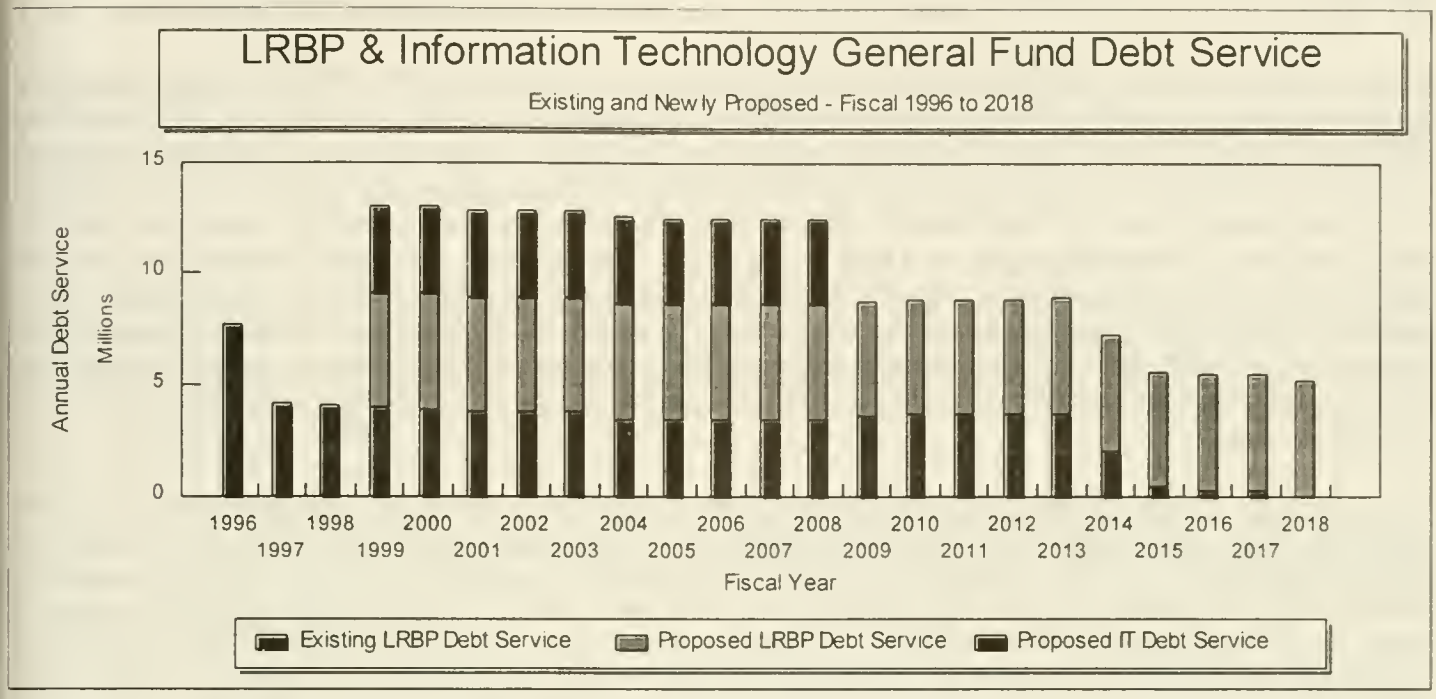
2) General Fund Impact - As mentioned above, any new bonding for LRBP projects approved by the 1997 legislature will result in an additional cost to the general fund. Debt service payments will be made from the general fund statutory appropriation and they will be in addition to payments currently made for outstanding LRBP debt. Chart 1 shows what the annual debt service costs to the general fund are for outstanding debt and what the additional debt service payments would be if the Governor's $61.8 million in bonding were approved. Since it is uncertain at this time when the $61.8 million would be issued and what the exact debt service payments would be, Chart 1 depicts an even stream of payments beginning in fiscal 1999. Total principal and interest costs for a 20-year term would be approximately $103.4 million.

Chart 1



3) Information Technology Proposal - Although the Governor's LRBP bonding proposal is not directly related to the Governor's bonding proposal for information technology, both would require funding from the issuance of G.O. bonds that would be paid for with general fund monies. Of the $55.1 million total request for information technology bonded projects, $30.5 million is to be retired with general fund statutory debt service payments. These bonds are to be issued for a 10-year term. At an interest rate of 4.6 percent, this would result in an additional debt service cost of $3.9 million for an approximate total principal and interest cost of $38.7 million (a shorter-term bond results in a lower interest rate). Together, the Governor's request for bonded programs could cost the general fund as much as $9.1 million per fiscal year or $18.2 million per biennium, over a 10-year period, above existing general fund debt service obligations. Chart 2 shows the impact of these two proposals.

Chart 2



Lease/Purchase

Third, the Executive Budget recommends two lease/purchase projects in Helena to deal with circumstances unique to the Helena area. The Office of Public Instruction (OPI) is being relocated from the Capitol to consolidate more of their staff offices and to allow inclusion of that first-floor space in the Capitol restoration plan. The new OPI offices are in leased space adjacent to their state-owned space. Extensive renovations were required to provide adequate space for OPI programs in the new location. The lessor has cooperated and a second floor is being added to the current building, with lease adjustments to recover the lessor's cost. Continuing to lease the site will result in the state paying for, but not owning, these improvements.

The joint recommendation developed by the Governor and Superintendent of Public Instruction Nancy Keenan is to purchase the building and improvements through a lease/purchase contract. As the Executive Budget is being finalized, several options to accomplish the lease/purchase contract are being considered by OPI, the owner, and the Department of Administration's General Services Division (GSD). A final recommendation will be presented to the Joint House/Senate Long-Range Planning Appropriations Subcommittee. One option is to pay for the purchase and improvements through OPI operating funds with a balloon payment from the building program in year 15 of the lease. Another option is to use a combination of LRBP cash and the amount in the OPI operating budget for rent to pay the $900,000 for improvements and to sign a lease/purchase contract at no interest for the facility.

LFD Issues

1) Capital Restoration - Although approval to enter into a lease/purchase agreement requires legislative approval, plans are already in progress to move OPI out of the capitol and into a building already leased by the agency. Construction of an addition to a building currently occupied by OPI has begun in an effort to consolidate OPI offices. However, the executive proposal to move OPI is also intended to "allow inclusion of that first-floor space in the capitol restoration plan." The inclusion of this space in capitol restoration is not part of the $19.6 million project approved by the 1995 legislature, which included $12.6 million in bonded debt. Rather, it relates to the Governor's new request for an additional $3.5 million in bonded debt (see Table

4) for "critical project requirements." If the lease/purchase option is not approved by the 1997 legislature, OPI will continue to occupy office space outside the capitol under a regular lease agreement.

2) Capitol Projects Fund - The executive suggests that one option for funding the $900,000 in improvements under this lease/purchase proposal, is to use LRBP cash in combination with money from OPI's operating budget. Although the specifics of this proposal are not final at this time, there is no indication that the executive has budgeted any payments from the LRBP fund for this purpose. The amount shown in Table 2 for funding capital construction projects is $8.6 million. This is the same amount that appears for the total cost of projects to be funded by the LRBP in Table 3. Consequently, any LRBP funding for the OPI lease/purchase option would be in excess of the $8.6 million budgeted. As shown in Table 2, the projected ending fund balance is $544,754. As mentioned earlier, this represents only 3.2 percent of the total revenue estimate for the LRBP account. Committing any of the projected ending fund balance monies for financing the OPI lease/purchase agreement would place other expenditures from the account at risk should revenue shortfalls occur.

The second public-private partnership is proposed because Helena-area agencies have become fragmented in leased and state-owned space as departments have changed size and been reorganized. State agencies lease over 40 sites in Helena, as well as occupy space in the 29 buildings on the Capitol complex and in other state-owned buildings. In the case of one agency, program offices are located in at least eight different sites. In addition, the cost of leased space is escalating rapidly in Helena, and adequate space is difficult to acquire. At the same time, state government will be unable to finance and develop properties for all of its needs. The purpose of the recommendation is to decrease overall state costs and to increase state efficiency.

The recommendation is for a public/private partnership to construct a building to house the Department of Public Health and Human Services (PHHS) using a lease/purchase contract. The state would provide programming to delineate the PHHS space and program needs, and utility quality requirements. A private contractor, selected through a competitive proposal, would design, build, and finance the construction of space which then would be leased to the state with an option to purchase. This method of public finance can be structured to allow the advantages of tax exempt interest rates.

There is $350,000 recommended in the LRBP cash program HB 5 for initial planning and programming of this project. The construction costs, estimated to be about $32.0 million, would be borne by the developer and recovered through a triple net lease (state pays all costs) from the agency operating budget. PHHS programs would pay the cost of interest, capital recovery, and maintenance from budgets which are approximately 35 percent general fund, 50 percent federal special revenue, and 15 percent state special revenue.

By relocating PHHS, implementation of this proposal would provide space on the Capitol complex for many agencies to consolidate their programs at one site, or at least in close proximity to one another on the complex. It also would move many general fund programs out of leased space and into more reasonably-priced, state-owned space. The Departments of Revenue, Commerce, Labor and Industry, Administration, DNRC, and the State Auditor would all realize decreased costs and increased efficiency through implementation of this proposal. The PHHS would realize increased efficiency by consolidating from eight of its current buildings into one facility designed specifically for its functions.

Because lease/purchase would require a vote of two-thirds of the members of each house in accordance with Title 18, Chapter 3, MCA, a bill will be introduced to enable legislative consideration of these two projects.

LFD Issues

1) PHHS Reorganization Costs - In response to an executive proposal for agency reorganization, PHHS was created by the 54th Legislature. As a result of the reorganization, a number of costs were borne by the agency, including $338,717 for costs related to facility modifications and for the re-location of personnel. Some of

those costs included moving charges, painting, carpeting, and lost productivity by staff. If PHHS moves into a new facility, these costs will be duplicated.

2) Comprehensive Study - The executive raises a number of issues regarding the use of privately-owned space including: escalating costs, inadequate supply, inconvenience to the public, and inefficiencies due to lack of consolidation. Although the executive proposal for a single new PHHS facility is intended to address these types of concerns, approval of this project is preliminary for two reasons:

a) As shown in Table 3, the Governor's LRBP cash proposal includes $350,000 for a project entitled "Plan Lease Reduction Program, Helena". Initial planning and programming of the proposed construction of a new building for PHHS is included in this project. At the same time, the executive will be introducing legislation requesting authorization to enter into a lease/purchase agreement for a new PHHS building in Helena, at an estimated cost of $32.0 million. Thus, the legislature may wish to consider:

1) requiring all or a portion of the $350,000 planning cost be included in the lease/purchase cost or funded by PHHS's budget. This could result in some of the cost being funded by state and federal special revenues, as well as make up to $350,000 in additional funds available for other capital projects.

2) approving the executive's request for $350,000 for the initial planning, then requiring a proposal for new construction be provided to the 1999 legislature.

b) By request of the executive, a resolution will be introduced to the 1997 legislature calling for an interim study involving the management of state-owned facilities. The study is proposed to address facility management statewide, including building maintenance, disposition of state properties, and the statutory requirement to co-locate state agencies outside Helena. If the legislature supports the concept of an interim study related to the management of state-owned facilities, it may be more effective to have the study also include a review of the state's use of privately-owned versus state-owned property in Helena. Postponement of any major construction projects within the Helena area until a complete review of the situation could occur, would likely result in a more organized and effective plan for meeting the state's long-term space needs. All or part of the $350,000 requested by the executive in HB 5 for a "Plan Lease Reduction Program" could be considered for funding a more comprehensive study.

3) Two-Thirds Vote Required - Montana statute requires a two-thirds vote of the members of each house of the legislature to enter into a lease/purchase contract. In accordance with Title 18, Chapter 3, part 1, MCA, such a contract is backed by the "full faith and credit and taxing powers of the state". Therefore, if revenues pledged for contract payments are insufficient, payment becomes an obligation of the general fund. Statutorily, lease/purchase payments are secured to the same degree as debt service payments on G.O. bonds. When considering the approval of LRBP projects to be funded with G.O. bonds, any obligations and impact on the general fund resulting from lease/purchase agreements should also be considered. Moreover, unless the financing terms for a lease/purchase can be structured at a lower cost to the state than through issuance of G.O. bonds, there is little or no difference in benefits to the state between the two financing mechanisms. It is unclear at this time if the proposed $32.0 million lease/purchase program could be implemented at a lower cost than with bonding.

Capitol Land Grant

Capitol land grant revenue, derived from sections 16 and 36 trust lands designated in The Enabling Act for the State Capitol Complex, will continue to be one funding source for a portion of the LRBP. Debt service payments continue on the Department of Justice building and the Capitol renovation work approved by the 1995 legislature. The Capitol Complex irrigation work is a new one-time recommendation contained in HB 5 that would be funded from this source. The appropriation to the GSD has been maintained at the same level ($58,801) for many years and the $250,000 per year major maintenance request is the amount recommended by the Governor for projects during the 1999 biennium.

Table 5
Capitol Land Grant Revenue And Expenditures
Projections For Fiscal 1997 - 1999

	FY97	FY98	FY99
Beginning Balance	$0	$58,296	($215,256)
Estimated Revenue*	$640,000	$618,000	$930,000
Total Funds Available	$640,000	$676,296	$714,744
Expenditures			
Justice Bldg Debt Service	($389,000)	($58,184)	($85,136)
Capitol Renovation Debt Service	(133,903)	(412,067)	(420,755)
FWP Capitol Complex Irrigation		(112,500)	(112,500)
General Services Appropriation	(58,801)	(58,801)	(58,801)
General Services Maintenance Request	0	(250,000)	(250,000)
Total Expenditures	($581,704)	($891,552)	($927,192)
Ending Balance	$58,296	($215,256)	($212,448)

*Based on assumptions adopted by ROC.

LFD Issue - Table 5 shows the executive's request for expenditures from capitol land grant (CLG) revenue. However, the executive proposal was established according to higher revenue estimates than the estimates derived from the assumptions adopted by the ROC as shown in Table 5. Based on those revenue estimates, approval of the Governor's request to use capitol land grant revenue would result in a $212,448 over-allocation of funds.

Of the proposed expenditures, those attributed to debt service and to the GSD for $58,801 per year are the current uses designated for CLG funds. The request for $500,000 by the GSD and $225,000 by the Department of Fish, Wildlife, and Parks (FWP) could be viewed as new one-time-only proposals. The appropriation to GSD would occur in HB 2, and the appropriation to FWP is included in HB 5 and shown in Table 3. Because CLG revenue estimates are insufficient to fully fund the executive proposal, the legislature may wish to consider other options. Some of the options available include:

1) Deny approval of either the request by the GSD or the FWP, or approve both requests based at reduced amounts within the available funding.

2) Approve both proposals, but approve only the request for CLG funding by FWP and direct the executive to fund the request by the GSD through an increase in rent costs to state agencies. Assuming no decline in the amount of space rented, a 6 percent increase in rent on office space would generate $250,000 per year. Such an increase, however, would impact all agency budgets.

3) Approve both proposals, but approve only the request for CLG funding by the GSD and direct the executive to fund the request by FWP through an increase to agencies through the capitol grounds maintenance structure. An estimated 85 percent increase would be required, and this option would also impact all agency budgets.

4) Deny both requests, and direct the money be used to fund additional debt service on the capitol restoration project (in lieu of general fund), or leave any remaining funds to be appropriated next biennium.

LFD Overview

Based on preliminary estimates for lease/purchase agreements, the total request by the Governor under the LRBP is as follows:

Cash Program -	$ 60.5 million
Bonded Program -	67.5 million
Lease/Purchase -	32.9 million
Total Cost:	$160.9 million

If adopted by the 1997 legislature, this would be the second largest building program ever approved. Table 6 shows a history of capital project appropriations for each biennium since 1983.

LFD Issue - The amount of deferred maintenance of state-owned property is rapidly increasing. The state of Montana owns and is responsible for the on-going repair and maintenance of over 3,100 state buildings and facilities. Requests made to A&E for repair, maintenance, and construction projects during the 1999 biennium totaled over $457.5 million, with requests for funding from the LRBP account in excess of $338.1 million. Only $8.6 million is proposed from the LRBP cash account for maintenance projects in the Governor's LRBP request for the 1999 biennium. The majority of the $160.9 million request includes funding for new construction and, if approved, the LRBP bonded program would be the largest in the state's history.

Table 6
Capital Projects Appropriated by Biennium
(In Millions)

Biennium	Capital Projects Fund	G.O. Bonds	Other *** Funds	Total Projects
1983	$11.700	$35.834	$12.761	$60.294
1985	10.870	39.335	15.693	65.898
1987	10.518	8.550	19.203	38.270
1989	6.247	0.000	11.440	17.687
1991	7.515	3.823	21.527	32.864
1993	8.382	48.605 *	71.820	128.807 *
1995	5.719 **	6 460	30.898	43.076
1997****	7.835	41.865	141.191	194.981
1999 Proposed	8.616	61.809	90.477	160.902

* The 1993 legislature reduced the prison expansion by $12.7 million.

** The amount shown in the table contains $2.6 million of general fund. HB 46 from the 1993 session diverts cigarette tax revenues from the capital projects fund to a state special revenue fund for the operation of veterans' homes. This $2.6 million reduction in the capital projects fund was offset by an appropriation from the general fund.

*** Other funds include non-general fund sources such as state and federal special revenue funds, private contributions, and miscellaneous "other" funds.

**** This does not include the $3.5 million general fund appropriation to OPI for state advances and reimbursements for school facilities (HB 5).

Although the executive proposes the use of general fund monies to pay debt service for new construction, the Governor's Budget offers no proposal for increasing the state's ability to meet the escalating costs of maintaining existing facilities. The executive offers no plan for funding deferred maintenance of state-owned property.

Treasure State Endowment Program

Background

The Treasure State Endowment Program (TSEP) is a coal tax funded program designed to assist communities with infrastructure financing. Montana voters authorized the program by passing Legislative Referendum 110 in 1992. Goals for the program include:

1) create jobs for Montana residents;
2) promote economic growth in Montana by helping to finance the necessary infrastructure;
3) encourage local public facility improvements;
4) create a partnership between the state and local governments to make necessary public projects affordable;
5) support long-term, stable economic growth in Montana;
6) protect future generations from undue fiscal burdens caused by financing necessary public works;
7) coordinate and improve infrastructure financing by federal, state, local government, and private sources; and
8) enhance the quality of life and protect the health, safety, and welfare of Montana citizens.

The statute provides for a diversion of a portion of the coal tax revenues for a 20-year period to create a "treasure state endowment special revenue account" within the coal severance tax trust fund. Only interest earned from the TSEP endowment is available for distribution. Incorporated cities and towns; counties; consolidated governments; and water, sewer and solid waste districts are eligible to apply. Eligible projects include construction of, or repairs to, drinking water systems; wastewater treatment facilities; sanitary or storm sewer systems; solid waste disposal and separation facilities; and bridges. The statute provides for matching grants, debt service subsidies, and loans.

Grants have been the primary source of TSEP funding in the first three funding cycles, with over 90 percent of the applications requesting matching grants. There are several other federal and state sources available to communities for low-interest loans, but grant funds which help make expensive local public facility projects more affordable and financially feasible are extremely limited.

The Department of Commerce (DOC) administers TSEP and makes recommendations for grant and loan awards to the Governor. The Governor makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds.

For fiscal years 1994 and 1995, there were 32 applications requesting $11,627,000 in TSEP funds. The 1993 legislature approved 24 projects totaling $4,134,458 in TSEP funds. The 1993 legislature also authorized the department to borrow $4,134,458 from the Board of Investments in order to "jump start" TSEP and fund all 24 projects approved by the legislature. Without this jump start loan, only 6 of the 24 community projects would have been funded.

For fiscal years 1996 and 1997, there were 21 applications requesting $7,195,129 in TSEP funds. The 1995 legislature approved 15 projects totaling $4,991,029 in TSEP funds.

Governor's Budget Proposals

For fiscal years 1998 and 1999, there were 40 applications requesting $15,524,536 in TSEP funds. Based on revenue estimates developed by DOC in August, 1996, there is projected to be a low of $7,914,714 to a high of $9,063,374 available for the 1997 legislature to award as grants for 1999 biennium community infrastructure projects. Loans are funded from proceeds of coal severance tax bonds which would be sold by the state; therefore, there would be sufficient funds for all projects recommended for loans.

The Governor recommends grants for local governments as shown in rank order on Table 1 and loans as shown on Table 2 below. It is further recommended that the total grants and loans ranked and approved in HB 11 exceed final Revenue Oversight Committee revenue estimates to enable maximum response to infrastructure needs as projects are ready for construction. (For the rationale for these recommendations, see the TSEP Report to the 1997 legislature.)

Table 1
Treasure State Endowment Program
Grant Recommendations For Local Government
Infrastructure Construction Projects
Fiscal Year 1998-1999

Rank	Applicant	Note	Project Type	Grant Request	Grant Recommendations	Cumulative Grant Total
1	Cascade, Town of		Wastewater	$500,000	$500,000	$500,000
2	Fort Peck, Water District	d	Water	500,000	500,000	1,000,000
3	Terry, Town of		Wastewater	500,000	500,000	1,500,000
4	Judith Gap, Town of		Wastewater	130,000	130,000	1,630,000
5	Glendive, City of		Water	500,000	500,000	2,130,000
6	Twin Bridges, Town of		Water	500,000	500,000	2,630,000
7	East Missoula, Sewer District		Wastewater	500,000	500,000	3,130,000
8	Glasgow, City of	c	Wastewater	500,000	441,443	3,571,443
9	Helena, City of		Wastewater	500,000	500,000	4,071,443
10	Richey, Town of		Water	264,340	264,340	4,335,783
11	Hill Co./Box Elder, Sewer District		Wastewater	462,000	462,000	4,797,783
12	Valier, Town of		Wastewater	500,000	500,000	5,297,783
13	Roundup, City of		Wastewater	500,000	500,000	5,797,783
14	Lewis & Clark Co.	c	Bridge	128,250	64,125	5,861,908
15	Hamilton, City of		Wastewater	500,000	500,000	6,361,908
16	Missoula/Neighborhood		Wastewater	500,000	500,000	6,861,908
17	Chinook, City of		Water	313,555	313,555	7,175,463
18	Fort Benton, City of		Water	480,244	480,244	7,655,707
19	Miles City, City of		Water	136,000	136,000	7,791,707
20	Lakeside, Water/Sewer District		Water	500,000	500,000	8,291,707
21	Neihart, Town of		Water	261,028	261,028	8,552,735
22	Choteau, City of	a	Wastewater	100,000	0	8,552,735
23	Mineral County/Saltese, Water/Sewer Dist.	b	Wastewater	500,000	0	8,552,735
24	Coram, Water/Sewer District	d	Water	500,000	500,000	9,052,735
25	Livingston, City of	a	Water	276,750	0	9,052,735
26	Lewis & Clark Co./Lincoln	b	Wastewater	235,325	0	9,052,735
27	Choteau Co. Highwood		Wastewater/Water	420,000	420,000	9,472,735
28	Billings/Neighborhood		Wastewater/Storm Sewer	280,000	280,000	9,752,735
29	Jefferson Co.		Solid Waste	128,915	128,915	9,881,650
30	Red Lodge, City of		Water	500,000	500,000	10,381,650
31	Chester, Town of		Water	417,000	417,000	10,798,650
32	Hardin, City of		Water/Storm Sewer	350,000	350,000	11,148,650
33	Thompson Falls, City of	c	Water	500,000	400,000	11,548,650
34	Big Timber, City of		Wastewater	500,000	500,000	12,048,650
35	Ekalaka, Town of	c	Wastewater	100,150	85,150	12,133,800
36	Culbertson, Town of		Wastewater	313,259	313,259	12,447,059
37	Great Falls/Neighborhood	c	Water/Sewer	496,050	440,000	12,887,059
38	Bainville, Town of		Water	360,000	360,000	13,247,059
39	Harlem, City of		Water/Sewer	472,920	472,920	13,719,979
40	Richland Co.	b	Bridge	398,750	0	13,719,979
	Totals			$15,524,536	$13,719,979	$13,719,979

(a) These projects are recommended for loans instead of grants based on TSEP financial analysis.
(b) These projects are not recommended for grants due to major technical and financial feasibility issues.
(c) These projects are recommended for grant amounts less than requested based on TSEP financial analysis and financial policies.
(d) These projects are recommended for loans in addition to grants.

Table 2
Treasure State Endowment Program
Loan Recommendations for Local Government
Infrastructure Construction Projects
Fiscal Years 1998-1999

Rank	Applicant	Note	Project Type	Loan Request	Loan Recommended	Cumulative Loan Total
2	Fort Peck, Water District	c, d	Water	$1,325,000	$1,325,000	$1,325,000
22	Choteau, City of	a	Wastewater	0	110,000	1,435,000
23	Mineral Co./ Saltese, Water/Sewer District	b	Wastewater	76,277	0	1,435,000
24	Coram, Water/Sewer District	c,d	Water	153,722	170,000	1,605,000
25	Livingston, City of	a	Water	0	300,000	1,905,000
	Totals			$1,554,999	$1,905,000	$1,905,000

Note: For the rationale for these recommendations, see the TSEP Report to the 1997 legislature.
(a) These projects are recommended for loans instead of grants based on TSEP financial analysis.
(b) These projects requested loans, but are not recommended for loans due to major technical and financial feasibility issues.
(c) These applicants requested loans, and approval of the loan request is recommended.
(d) These projects are recommended for loans in addition to grants.

The grant and loan recommendations submitted for legislative consideration are based on four principles:

- First, in compliance with the statute, the applicants' scores on the ten statutory priorities provide the rank order of applicants for funding.
- Second, applicants which have reasonable, clear-cut substantial borrowing capacity at relatively affordable rates are not recommended for grants awards, but are recommended for loan funds.
- Third, in analyzing the borrowing capacity of the applicants, the department has factored in a "safety margin" of reserved borrowing capacity so that applicants would have adequate borrowing capacity for other future mandated projects or projects in response to emergencies.
- Finally, projects which appear to have major financial or technical feasibility problems are not recommended for funding.

The ten statutory criteria are for projects that:

1) solve urgent and serious public health or safety problems;
2) enable local governments to meet state or federal health or safety standards;
3) incorporate appropriate, cost-effective technical design that provide thorough, long-term solutions to community public facility needs;
4) result in a benefit to the public commensurate with the amount of financial assistance requested;
5) reflect greater need for financial assistance than other projects;

6) enable local governments to obtain funds from sources other than TSEP;
7) provide long-term, full-time job opportunities for Montanans;
8) provide public facilities necessary for the expansion of a business that has a high potential for financial success;
9) maintain or do not discourage expansion of the tax base; and
10) are high local priorities and have strong community support.

For many years, "target rate" analysis and debt capacity analysis has been used for financial analysis of water and sewer applications. However, for bridge applications, target rate analysis is not feasible. Thus, new policies and methods for financial analysis of bridge applications had to be developed. In consultation with members of the Joint House/Senate Long-Range Planning Appropriations Subcommittee, DOC developed a methodology based on ten financial questions to evaluate whether a TSEP grant, loan, or other funds are necessary to make a county-proposed bridge project feasible and affordable. Used for the first time this year, the ten questions appear to provide a more comprehensive means to measure financial capacity, including the ability of a TSEP applicant to fund a portion or all of the bridge project on its own.

The local financial characteristics of proposed water and sewer projects submitted by municipalities and county water/sewer districts are significantly different from the proposed bridge projects. For water and sewer projects, the municipality or water/sewer district often adopts user fee increases to provide matching funds for TSEP grants. If loans or bonds are used, they are retired with user fee increases. User fee increases and bonds are exempt from I-105. In contrast, county financing of bridges is based primarily on county tax revenues, which are frozen under I-105. From a legal viewpoint, it is easier for a municipality to raise user fees to provide matching funds for a TSEP water or sewer application than for a county to raise taxes to provide matching funds for a bridge application. For a county to raise additional tax revenues for a bridge project requires either a vote of the people to override I-105, or for the county to use funds from other county mill levy accounts, which also are frozen under I-105. The ten financial questions for bridge applications take into account these structural differences and the unique situation for financing county bridges.

Finally, in addition to project recommendations, the Governor and the DOC are supporting amendments to the TSEP statute in order to streamline the program and make it more responsive to the needs of local governments. The proposed changes include: establishing an annual funding competition, rewarding an applicant's past efforts to plan for and manage its public facilities, clarifying the importance of financial need, encouraging infrastructure construction to support the development of affordable housing, and consolidating duplicative statutory ranking criteria. These amendments are the culmination of dialogue since 1992 with local officers and officials about how TSEP could best meet their infrastructure needs and of feedback from the May, 1996, Governor's Conference on Community Infrastructure (INFRACON) in Billings when the Governor and a panel of state legislators discussed various improvements that could be made to TSEP.

Volume 4 of the Governor's Budget contains the Treasure State Endowment Program report and recommendations to the Fifty-fifth Legislative Assembly, the 40 applications received, the detailed analysis thereof, and the complete recommendations which are summarized above.

LFD Issues **- Although the executive proposal mentions the amendment of the TSEP statute, the detail associated with these amendments is not provided here, but is outlined in the Treasure State Endowment Program report. There are, however, two components of this proposal that recommend: 1) a major change in regard to legislative involvement in TSEP grant and loan awards; and 2) use of TSEP funds for development of affordable housing.**

1) ***Legislative Involvement*** **- It is stated above that the Governor and the DOC support "establishing an annual funding competition." Specifically, the executive proposes to transfer the authority to approve TSEP applications and funding from the legislature to the executive branch. The DOC would**

inform the Legislative Long-Range Planning Subcommittee of its recommendations, allowing the Subcommittee to offer comments, but the Governor would make the final decisions. Based on the DOC's reasoning for this recommendation, a couple of questions are raised:

a) According to DOC, the most frequent criticism of the TSEP is the biennial funding cycle for the program. By transferring TSEP award authority to the executive, DOC contends they could be more responsive to the needs of local governments through implementation of an annual funding cycle. The 1997 legislature will be asked to consider whether or not relinquishing legislative control of TSEP will: 1) enhance DOC's ability to service local governments, and, if so; 2) does the level of enhanced service justify removing the legislature from the approval process?

b) Secondly, one of the specific reasons presented by DOC for an annual funding cycle is to respond to local governments' need to address emergency type situations, such as the need to comply with public health and safety standards. If the legislature does not wish to transfer TSEP award authority to the executive branch, one possible option for addressing the need for funding due to emergency situations includes:

The TSEP statute could be amended to allow DOC to request a specified percentage of grant funds and/or an amount for loans to be used during the biennium for emergencies. By statute, this type of authority is granted to the Department of Natural Resources and Conservation (DNRC) under the Renewable Resource Grant and Loan Program (see 85-1-605, MCA).

2) *Use of TSEP Funds For Development of Affordable Housing* - The executive recommends that a new statutory priority be added under the TSEP statute to allow the funding of infrastructure (such as water and sewer lines) in support of affordable housing development for low and moderate income families. DOC suggests that the statute already allows TSEP-funded infrastructure in support of economic development projects and that the lack of affordable housing for employees is a barrier to the expansion and relocation of businesses in many Montana communities. However, two issues associated with this proposal include:

a) TSEP came into existence as a result of voter authorization of Legislative Referendum 110. Although the language presented to the voters involved creation of a fund "to provide local governments coal severance tax trust fund interest for water, sewer, solid waste, and bridge projects", there was no mention of using the funds in relation to the provision of affordable housing. Moreover, DOC recommends placing use of TSEP funds for this purpose above statutory priorities addressing general economic development and above "projects that are high local priorities and have strong community support." (See the 10 statutory criteria previously listed.)

b) In addition to other governmental and non-profit programs, there are already two key state entities addressing the need for affordable housing, including Montana's Community Development Block Grant (CDBG) Program and the Montana Board of Housing. Furthermore, one of the top statutory criteria for ranking TSEP applications deals with "projects that reflect greater need for financial assistance than other projects." A major component of the TSEP application review and approval process includes assessing a community's ability to afford

infrastructure projects based on the economic condition of households in that community. In other words, TSEP provides greater financial assistance to communities significantly represented by families with low and moderate income levels.

Funding

Grants

Table 3 shows the projected funding for TSEP during the 1999 biennium. Expenditure amounts are provided by DOC and projected revenues are based on assumptions adopted by the Revenue Oversight Committee (ROC). The executive suggests that between $7,914,714 and $9,063,374 will be available for TSEP grant awards. However, as Table 3 indicates, $9,137,767 is projected to be available for TSEP awards by the 1997 legislature. This level of income would allow funding through project priority number 26 as recommended by the Governor and shown in Table 1. As in the past, the legislature may wish to authorize projects beyond this funding level, should additional funds become available or in case projects within the funding level withdraw their application. Grant awards cannot exceed $500,000 per applicant.

Loans

Although the executive recommendation for loans shown in Table 2 are a result of applications to the TSEP, these loans will not be included in HB 11, but in HB 8. HB 8 is the legislation requesting authorization for the issuance of coal severance tax bonds by DNRC. Bond proceeds will be used to provide funding for the loans approved under the TSEP application process. A more detailed discussion of the funding for these loans is found under the section on "Resource Indemnity Tax Trust Grants and Loans Programs."

Table 3
Treasure State Endowment Program
Fund Balance Projection, 1999 Biennium

Estimated Beginning Fund Balance		$1,870,390
*Revenue Projections		
Fiscal 1998 Interest	$4,248,856	
Fiscal 1999 Interest	4,862,274	
Total Funds Available		$10,981,520
Proposed Expenditures		
Administration	$604,833	
Board of Investments Loan Repayments	1,238,920	
Total Expenditures		$1,843,753
Funds Available for Grants and Loans		$9,137,767

*Based on assumptions adopted by ROC.

Oil Overcharge Program

Background

The state has received a total of $19,894,114 in oil overcharge funds since the program began in 1984 and earned $5,404,180 in interest on those funds. Through June 30, 1996, the state has spent $20,315,102 in oil overcharge funds on projects approved by the legislature, which has appropriated funding for a variety of programs.

Low-income programs, managed by the Department of Public Health and Human Services (PHHS) [formerly the Department of Social and Rehabilitation Services], have been appropriated $9,941,000. These programs include the Weatherization Assistance Program, the Low-Income Home Energy Assistance Program (LIHEAP), and Energy Share. In 1987, the legislature created the energy conservation and energy assistance account. Funds deposited in this account and interest earnings on the account were statutorily appropriated to the department to fund either LIHEAP or the weatherization program.

Energy conservation initiatives, managed by the Department of Environmental Quality (DEQ) [formerly part of the Department of Natural Resources and Conservation], have been appropriated $6,494,922. The two largest efforts are the Institutional Conservation Program, which provides energy retrofits for schools and hospitals, that received $3,068,567, and the State Building Energy Conservation Program that was appropriated $2,600,000.

Transportation programs have been appropriated $3,363,000, including $2,152,000 for the transload facility at Butte and $300,000 for the transload facility at Shelby. DEQ and the Department of Transportation (DOT) received $340,000 for a cooperative program between the departments to promote transportation demand management and to foster expanded use of alternative fuels. Oil overcharge funds also have supported a highway lighting project and research on the use of petroleum substitutes from agricultural and timber products.

Programs promoting energy conservation in agriculture received $1,439,042 for biological weed control, grants to conservation districts, and a tractor resource clinic.

The Montana Local Government Energy Office received $940,000 to provide technical assistance to local governments and to establish a self-sustaining local government energy program.

Governor's Budget Proposals

For the 1999 biennium, approximately $1,000,000 of revenue and interest earnings will be available for appropriation. Other funds that might be forthcoming as a result of restitutionary settlements are involved in protracted litigation that may last for many years. In accordance with the federal Department of Energy (DOE) requirement that states present a single plan for all oil overcharge monies, the Executive Budget recommends these funds be appropriated in coordinating legislation.

First, a reappropriation of $100,000 of oil overcharge funds is recommended for the State Building Energy Conservation Program operated by the DEQ. Oil overcharge funds authorized in House Bill 12 for this energy conservation effort will have a higher priority than any other oil overcharge appropriations for the 1999 biennium. The DEQ manages the State Building Energy Conservation Program to reduce operating costs in state facilities by identifying and funding cost-effective energy efficiency improvements. Through this program, the state sells general obligation bonds, uses the bond proceeds to pay for energy efficiency improvements, and then uses the resulting energy cost savings to pay debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service. The total energy savings realized from the inception of this program through fiscal year 1997 is $1,664,128. Oil overcharge funds were used as seed money to start this program.

Second, the Executive Budget recommends that the remainder of oil overcharge funds be appropriated in a single piece of legislation (House Bill 10) to nine programs ranked in priority order as follows:

1) Energy Share of Montana, in partnership with the PHHS, helps Montanans overcome energy emergencies and move toward energy self-reliance. The non-profit organization raises money through private donations and coordinates efforts of energy providers. Energy Share proposes to match $100,000 of oil overcharge funds with private donations on a one-to-one basis and to provide energy emergency assistance to residents with incomes between 125 and 150 percent of poverty guidelines for whom no federal low-income energy assistance program exists. Since 1982, Energy Share has distributed more than $2,700,000 to Montanans. Assistance is provided once unless the family pays back the assistance voluntarily. Of the 274 families served by oil overcharge funds the last two years, 170 are in the process of helping to repay the assistance.

2) Building "tune-ups" on state-owned buildings to evaluate the energy savings benefits and other benefits to efficient building operation would be accomplished through an $80,000 appropriation to the DEQ. Building tune-ups involve maintenance activities and modifications to equipment and procedures, many of which are free or low-cost, that will enable state building systems to operate at their designed efficiencies. Energy consumption in many buildings can be reduced by five to ten percent. Private sector building maintenance and engineering service firms are developing this product to be available for buildings in Montana. State government uses more than three thousand buildings to conduct state business. Reducing energy consumption by ten percent would amount to more than one million dollars a year in savings. Building tune-up activity cannot become part of the existing State Building Energy Conservation Program that relies on tracking and capturing energy savings to cover the costs of the program because the energy savings for each building are relatively small. DEQ would use a contractor to provide tune-up services on eight to ten state buildings.

LFD Issue **- According to DEQ staff, the requested $80,000 investment in "tune-ups" could achieve $16,000 per year savings on energy costs. Thus, it would take approximately 5 years to recoup this investment. However, because the $80,000 is to be funded with stripper well funds, the impacted state agencies should realize a reduction in operating costs as soon as the energy efficiency measures resulting from the tune-ups are implemented. Essentially, the $80,000 would be used to fund contracted services.**

If the legislature approves this project, they will need to direct DEQ on how to allocate the savings to the state that result from the energy savings. Three options for consideration include:

> **1) allocate the savings to the Long-Range Building Program as is done with the State Building Energy Conservation Program;**
>
> **2) allocate the savings to DEQ to be used for additional "tune-up" projects; or**
>
> **3) reduce agency appropriations for utility costs, which would result in lower costs to the general fund, and state or federal special revenues, depending on the agency.**

3) Ethanol Producers and Consumers, Inc. (EPAC), in partnership with DEQ, would receive $100,000 to help establish an infrastructure that will support the purchase and use of ethanol-fueled (E-85) vehicles. Use of alternative-fueled vehicles and alternative fuels, such as ethanol, offers energy-related benefits to Montanans, including decreased reliance on oil imports and cleaner air in areas of high petroleum use. To garner these benefits, this proposal leverages a one-time investment of oil overcharge dollars against substantial private-sector funds to overcome the chicken and egg nature of supply and demand. Without market demand, alternative refueling stations will not exist. Without alternative refueling stations, motor vehicle consumers have no incentive to purchase alternative-fueled vehicles. This appropriation will pay the incremental costs of installing ethanol-blend refueling equipment simultaneously with traditional refueling equipment in strategic locations

across the state. The marketing component will focus on: 1) establishing fleets of alternative-fueled vehicles that will create a core demand for alternative fuels, and 2) publicizing the benefits of alternative fuel use so that the demand continues after the initial oil overcharge funding to establish the fueling stations expires.

LFD Comment **- Based on information provided by DEQ, the estimated cost of installing alternative fueling stations is about 10 percent above the $40,000 to $50,000 cost for traditional fueling stations. The executive proposal for use of the $100,000 includes providing up to 16 grants of $5,000 each to retailers over a two-year period. Although it is not specified how the remaining $20,000 would be expended, DEQ suggests that these grants could result in leveraged funds from other sources of between $640,000 and $800,000.**

Furthermore, it is unclear how many retailers are interested in provision of alternative fueling stations. According to DEQ, one retailer in Helena has made a commitment and several others are interested.

4) A proposal to reduce petroleum use in the Yellowstone region would receive $75,000. The project will promote expanded use of alternative fuels within Yellowstone Park and develop means of increasing energy-efficient tourist travel in the region. DEQ will join a partnership with the gateway communities, National Park Service, private industry, and others. The project will build on public and private initiatives coming from the Greening of Yellowstone workshop last October. These initiatives include increasing use of alternative fuels and lubricants, such as in transit or through a regional transportation management association. Also, this project will supplement local match for the Rural Intelligent Highway Project-Yellowstone Region, an effort of the Western Transportation Institute. The project will develop leading-edge tourist travel demand management strategies to reduce unnecessary driving by tourists through improved information services. The project will use intelligent systems to improve transportation energy efficiency without increasing congestion and associated pollution. DEQ anticipates that project funding will be augmented by grants from private and industry sources, and the U.S. DOE, Environmental Protection Agency (EPA) and National Park Service.

LFD Comment **- Of the $75,000 requested:**

> **1) $25,000 or more is to be used to study use of biological based fuels and lubricants in marine and other small engines and the benefits that would result in maintaining water and air quality; and**
>
> **2) up to $50,000 will provide matching funds for the Rural Intelligent Highway Project mentioned above. Montana will join other states in providing the funds necessary to receive $500,000 in federal matching funds earmarked for this project.**

5) DEQ would receive $250,000 to create a Small Business and Tribal Environmental Compliance Loan Fund Program. This program would offer loans to small businesses and tribal communities for pollution control equipment, petroleum-based chemical product substitution, equipment replacement, pollution prevention, energy conservation, and waste minimization. The loan program would be financed by a one-time grant to the Department of Commerce Microbusiness Finance Program for the purpose of buying down interest rates to create a revolving loan fund specifically for the environmental compliance needs of small businesses and tribal communities. More than 3,000 small businesses in Montana cities and tribal communities face state and federal environmental regulations for the first time because of new federal statutes. Most regulations offer genuine opportunities for energy-efficiency and reductions in the use of petroleum-based products. However, replacing old equipment with energy-efficient machinery and substituting entire lines of petroleum-based chemical products for less hazardous materials can be cost prohibitive as a capital expense for small business owners. Many banks and government-sponsored programs do not offer affordable financing terms to implement regulatory compliance plans. The small business and tribal environmental compliance loan fund would create energy and petroleum-based product savings for small businesses and tribal communities in Montana.

LFD Comment **- This loan fund program would be administered through the Microbusiness Finance Program at the Department of Commerce and is not intended to result in any increased FTE or operating costs for the state. The entire $250,000 is to be used to "buy down" interest rates (to two points less than the prime rate) for funding to small businesses and tribal communities with environmental problems.**

6) A recycling program for mercury-containing lamps generated in institutional and commercial buildings across the state would receive $36,000. The main objective of the proposal is to reduce costs and enhance energy savings from lighting retrofits. More efficient lamps cut energy costs, can provide better lighting and productivity for the building occupants, and reduce environmental impacts associated with the generation of electricity. High lamp disposal costs are one obstacle to cost-effective relamping projects. DEQ will use the funds to provide equipment and training to establish a self-sustaining lamp recycling program that will reduce the cost of lighting projects. Fluorescent lamps contain enough mercury to be classified as hazardous waste. The state purchases about 70,000 new mercury lamps per year for routine replacement and thousands more for retrofit projects. Lower disposal costs will remove a barrier and enable more energy efficient lighting projects to be implemented.

LFD Comment **- The $36,000 is requested to fund a one-time investment in crushing equipment and in training equipment operators. The equipment has a life expectancy of 15-20 years.**

7) A home energy rating system would receive $120,000. The rating system is a market-driven approach to improve the energy efficiency of homes. Once in place, a home energy rating system will reduce the amount of natural gas and electricity needed to heat and cool residential buildings by educating and encouraging consumers to add insulation, improve heating systems, and make other changes to their homes. DEQ proposes to work with representatives of the housing industry in a collaborative effort to identify a home energy rating system applicable to Montana. DEQ will then train persons to conduct ratings, educate lenders on the benefits of the rating system to identify the utility bill savings from the improvements, and conduct or coordinate a marketing campaign to inform homeowners and potential home buyers about the benefits of a home energy rating.

LFD Issue **- The home rating energy system proposed by the executive provides some of the same services to existing homeowners as the home energy audits offered by the Montana Power Company. The system funded with oil overcharge funds would also target potential home buyers by comparing the energy efficiency of different homes to be purchased. The $120,000 request would be spent over a two-year period, however, it is undetermined how many potential home buyers would receive assistance based on this level of funding. There should not be any increase in FTE or operating costs for the DEQ as a result of this proposal.**

Costs covered by the $120,000 would include the purchase of a nationally recognized energy rating tool, a national consultant to attend some meetings of the collaborative group and assist with market development activities, printing of materials, travel to educate different groups on the proposed system, and some promotional activities. The intention is for this program to become self-supporting through market demand, and that the state's role as administrator would cease once the program was up and running.

8) A proposal to promote an energy-efficient transportation infrastructure would receive $140,000. DEQ proposes partnerships with local governments to promote the design and eventual construction of inherently less polluting, more energy-efficient transportation infrastructure. Many factors shape people's need to drive, including the nature of the public infrastructure. The project will address components of the transportation infrastructure affecting the energy efficiency of the vehicle fleet and the viability of non-motorized modes. These components are already the responsibility of local government. Improvements in their design can reduce consumer energy costs, and reduce pollution caused by driving. The project will assess: 1) road network development patterns, the amount of miles driven, and the cost of public infrastructure, 2) parking

and tourism, 3) energy-efficient traditional residential street design features, and 4) energy-efficient signalized intersections. The project may be eligible for matching funds from the U.S. DOE or EPA.

LFD Comment - The executive proposes to coordinate this project with DOT, although the DEQ will administer the program. Existing DEQ staff and resources will be used to administer contracts with and provide assistance to local governments. Local governments will administer the day-to-day aspects of their projects, and they are responsible for using their own resources for plan preparation prior to receiving state funds.

It is unclear how many projects the requested $140,000 may fund or how many local governments may be able to participate. In addition, there is little certainty in regards to the availability of matching funds. DEQ has indicated that based on past experience, they believe local governments will offer matching funds to participate in this project. However, the likelihood of federal funds is less certain. DEQ suggests that matching funds from local governments are likely to be "in the tens of thousands of dollars range" and funds from federal sources are likely to be "in the lower hundred thousands of dollars range."

9) Energy Share Foundation would receive $100,000 through the PHHS and conditioned on passage and approval of a companion bill being drafted by the Governor's Low-Income Energy Assistance Committee to establish the permanent foundation. It is proposed that the foundation will be capitalized through a combination of tax credits for energy providers and additional charges to those same companies which, in the case of regulated utilities, could be passed on to their energy customers. This proposal would speed up the capitalization of the foundation which is recommended to be capped at $10 million.

Funding

Table 1 shows a listing of the projects to be funded with oil overcharge funds as requested by the executive. All of the funding for these projects is from stripper well funds. A total of $880,605 is available, including $575,871 in oil overcharge funds received in fiscal 1996, $208,136 in fiscal 1996 interest earnings, and $96,598 in revenues received thus far in fiscal 1997. Although additional revenues may become available as a result of future settlements, the timing and related amounts of such settlements remains uncertain. DEQ is expecting at least an additional $100,000 in oil overcharge funds. However, one official from the federal Department of Energy has indicated Montana may only get an additional $70,000 in each year for fiscal 1997 and 1998.

LFD Issue - If the executive proposal is approved as submitted, the projects listed in Table 1 would be funded in the order of priority shown based on available revenues. Consequently, unless additional oil overcharge funds are received, priorities nine and ten would not be funded.

The legislature has several options for overall consideration of the Governor's oil overcharge program request:

1) approve the Governor's request, as presented;

2) reprioritize the projects prior to approval; or

3) reprioritize and/or approve only some of the projects requested.

Table 1
Oil Overcharge Funds
Executive Recommendation
1999 Biennium

Rank	Agency	Project	Funding Source	Amount
HB 12				
1	DEQ	State Building Energy Conservation Program	Stripper Wells	$100,000
		Total Reappropriations		$100,000
HB 10				
2	PHHS	Energy Share of Montana	Stripper Wells	$100,000
3	DEQ	Building Tune-up Services	Stripper Wells	80,000
4	DEQ	Ethanol-Blend Refueling Equipment	Stripper Wells	100,000
5	DEQ	Alternative Fuel Use in Yellowstone Park	Stripper Wells	75,000
6	DEQ	Environmental Compliance Loan Fund	Stripper Wells	250,000
7	DEQ	Recycling Program for Mercury-Containing Lamps	Stripper Wells	36,000
8	DEQ	Home Energy Rating System	Stripper Wells	120,000
9	DEQ	Energy-Efficient Transportation Infrastructure	Stripper Wells	140,000
10	PHHS	Energy Share Foundation	Stripper Wells	100,000
		Total New Requests		$1,001,000
		Total Oil Overcharge Appropriations		$1,101,000

State Building Energy Conservation

Background

The State Building Energy Conservation Program (SBECP), operated by the Department of Environmental Quality (DEQ), was established by the 1989 legislature to reduce operating costs in state facilities by identifying and funding cost-effective energy efficiency improvements. The program operates as a profit center for state government, saving money in agency operating budgets and making money for the Long-Range Building Program through investment in these improvements.

Through this program, the state sells general obligation bonds, uses the bond proceeds to pay for energy efficiency improvements, then uses the resulting energy cost savings to pay the debt service on the bonds. The projects are designed so that the cost savings exceed the bond debt service. In this manner, the state realizes some incremental savings in the short-term while the bonds are being repaid, and substantial savings after 10 years, when the bonds are retired. The energy efficiency improvements include replacing old, inefficient boilers, upgrading inefficient lighting, increasing ventilation system efficiency, insulating buildings, and providing more effective temperature controls.

DEQ contracts with private engineering firms to perform comprehensive energy analyses on state buildings and building complexes. The engineering firms recommend cost-effective energy improvements that could be made to these buildings. The department utilizes this information to develop proposed financing packages that use general obligation (G.O.) bonds to finance the energy improvements. After energy improvements are in place, DEQ provides on-going training and technical assistance to facility staff to ensure that energy savings are maintained. The energy cost savings realized by participating agencies are transferred to a debt service account and used to retire the bonds.

A portion of the proceeds from each bond issuance is set aside to fund analysis, design, and program administration for the next round of projects. In this manner, the program is able to refinance itself and to continue without additional federal or state funding. The first round of projects was financed with oil overcharge funds, which has allowed the program to operate on a positive cash flow basis.

The SBECP has completed 28 projects to date. There are 20 additional projects in various stages of completion ranging from the study phase to construction. The program has spent about $3.0 million in stripper well oil overcharge funds and about $2.5 million in G.O. bond proceeds to fund the projects and to operate the program. Cumulative energy savings captured through fiscal 1996 total more than $1.0 million, with nearly $650,000 scheduled for fiscal 1997. Savings included in the Executive Budget recommendations for agencies are approximately $700,000 each year of the 1999 biennium.

Governor's Budget Proposals

In HB 12, the issuance of G.O. bonds for the following specific projects for the 1999 biennium will be requested:

- Department of Administration
  - Scott Hart Building
  - State Capitol Building
  - Fish, Wildlife & Parks Headquarters Building
  - Walt Sullivan Building (Labor and Industry)
  - Capitol Complex Lighting Upgrades
- Department of Justice
  - Law Enforcement Academy
- Montana State University at Billings
  - College of Technology Building

Physical Education Building
Department of Corrections
Montana State Prison
State Board of Education
School for the Deaf and Blind Lighting Project

LFD Issue - The authorizing statute for the SBECP (Title 90, Chapter 4, part 6, MCA) requires that proposed projects to be funded by the Program be submitted as part of the Governor's Budget in accordance with 17-7-123, MCA, including in part:

- an analysis of the actual and projected receipts, disbursements, and solvency of each accounting entity within each fund for the current and subsequent biennium.

In addition, 90-4-606, MCA, suggests that the Governor shall make available information such as a description of the improvements to be financed and the estimated cost of each project and the total cost of the Program. The lack of information provided within this proposal raises two issues:

1) Funding

Oil Overcharge - The executive proposal includes a request for reappropriation of $100,000 in oil overcharge funds to be used for administering the SBECP. These funds will be used to pay for costs such as engineering analysis, design work, training of state building operators, and program administration. Based on the Governor's request, this appropriation is to have a higher priority than oil overcharge appropriations included under separate legislation (HB 10). Although the $100,000 reappropriation is to be included in the SBECP legislation, there is no mention of it here by the executive. The legislature could opt to not approve the reappropriation for oil overcharge funds, or they may approve the request at a lower priority than the executive recommendation. Should this request not be approved or reprioritized below the funding level, it is unclear what the impact on the SBECP would be.

G.O. Bonds - As mentioned above, funding for the actual energy conservation projects (including some administrative costs) comes from the issuance of G.O. bonds. Bond payments are made from "energy cost savings" realized by participating agencies. Thus, funding for debt service payments varies according to how the particular agencies are funded. Ultimately, however, the G.O. bonds are backed by the full faith and credit and taxing powers of the state and become an obligation of the general fund should other revenues become unavailable.

2) DEQ will be asking for up to $5.0 million in bonding authority for the projects listed. However, the executive proposal does not include information regarding individual project costs or descriptions. Until that information is provided, it is difficult for the legislature to evaluate the merits of the proposed projects.

Resource Indemnity Tax Trust Grants and Loans Programs

LFD Introductory Comment

Resource indemnity tax (RIT) trust funds are a major source of revenue for several natural resource programs. In addition to the $5.0 million appropriated for grant programs, approximately $19.5 million of RIT funds were appropriated for various other state functions during the 1997 biennium. There are a number of issues related to the RIT trust that the 1997 legislature will be asked to address, as current on-going uses of the funds exceed on-going revenues. Therefore, although this section is devoted primarily to a presentation of the Governor's recommendations for the Renewable Resource Grant and Loan Program (RRGL) and the Reclamation and Development Grant Program (RDGP), a more detailed discussion related to the various RIT taxes and expenditures is presented at the end of this section. Information regarding RIT revenue and expenditure issues can also be found in the Revenue Volume under "Trust Funds".

Background

The resource indemnity tax (RIT) trust fund is established in Article IX of the Montana Constitution, which protects the balance of the trust up to $100 million. The beginning balance of the RIT trust fund for fiscal 1998 is projected to be $94.347 million. Based on the assumptions adopted by the Revenue Oversight Committee (ROC), deposits to the RIT trust fund over the 1999 biennium are projected to be $2.814 million -- $1.398 million in fiscal 1998 and $1.416 million in fiscal 1999. The RIT trust fund balance is not forecast to reach $100 million until after fiscal 2001 under current law.

Originally, the RIT trust was funded through a 0.5 percent gross proceeds tax on all mineral activities, including oil, gas, coal, metal mining, talc, limestone, gravel, and other mining. The gross proceeds tax, now named the resource indemnity and ground water assessment tax (RIGWAT), was deposited into the RIT trust fund. Since 1989 there have been several legislative changes to the RIGWAT statute that have altered who pays RIGWAT and how the tax revenue is distributed. Under current statute, the majority of metal mining activities do not pay RIGWAT and all oil and gas production is exempt from RIGWAT. Instead, these industries pay one tax under a simplified tax structure, and a portion of this tax is allocated to the RIT trust fund. In addition, metal mine operations grossing more than $250,000 per year pay a metalliferous mine license tax, and are specifically exempt from paying RIGWAT.

Allocation of the RIGWAT proceeds is established in 15-38-106, MCA. This statute and 15-36-324, MCA, govern allocation of a portion of the oil and gas production tax. Allocation of the metalliferous mine license tax is set in 15-37-117, MCA. The RIT trust fund receives the largest allocation of RIGWAT proceeds, 45.9 percent. The RIT trust fund also receives a percentage of oil and gas production tax proceeds and, in the 1999 biennium, is expected to receive 8.5 percent of the metalliferous mine license tax proceeds.

Funds deposited in the RIT trust fund are invested by the Board of Investments. Based on assumptions adopted by the ROC, interest earnings from these investments are forecast to be $7.878 million in fiscal 1998 and $7.966 million in fiscal 1999. Five state special revenue accounts receive statutorily-established amounts of RIT trust fund interest earnings for the 1999 biennium as follows:

- Environmental contingency account - $175,000;
- Oil and gas mitigation account - $50,000;
- Water storage account - $500,000;

- Renewable resource grant and loan account - $2 million; and
- Reclamation and development grants account - $3 million.

Renewable Resource Grant and Loan Program

RIT trust interest earnings in the amount of $2.0 million are to be deposited into the RRGL account each biennium for the purpose of making grants (15-38-202, MCA). Created by the 1993 legislature, the RRGL Program combines the former Renewable Resource Development Program, established in 1975, and the Water Development Program, established in 1981. As outlined under Title 85, Chapter 1, part 6, MCA, the purpose of the RRGL is to fund projects that promote the "conservation, development, management, and preservation of water and other renewable resources."

DNRC administers the RRGL program, which includes a biennial application process. DNRC and a technical review team initially evaluate each application for economic and technical feasibility, as well as to ensure that proposed projects are located in Montana. Qualifying applications are then examined according to six criteria: 1) financial feasibility; 2) adverse environmental impact; 3) technical merit; 4) public benefit; 5) need; and 6) urgency. DNRC submits a list of funding recommendations to the Governor, who reviews the list and submits recommendations to the legislature. Funding for projects comes in the form of grants and/or loans made to both public and private entities.

Grants

The majority of grant awards are made to state and local governments, but grants can also be made to private persons. Although there is no statutory limit on grant awards made to state or local governments, DNRC limits their recommendations to a maximum of $100,000 per applicant. The legislature may, however, award grant recipients an amount in excess of $100,000.

By statute, grant awards to private persons cannot exceed 5 percent of the total funds available, or 25 percent of the total project cost -- whichever is less. Because Montana's Constitution prohibits appropriations to individuals, DNRC receives a lump sum appropriation to fund private grant applications. During the 1995 and 1997 bienniums, the legislature appropriated $100,000 for this purpose. In addition, up to 10 percent of the funds available for grants each biennium can be awarded to DNRC to be used for emergency grants. A total of $125,000 was appropriated to DNRC each of the last two biennia for the purpose of funding emergency projects. Grant funding comes from the RIT trust interest earnings.

Loans

RRGL program loans are funded in two ways:

1) Loan awards for projects in excess of $200,000 are funded by the sale of coal severance tax secured bonds. Unlike smaller loans, these large loans are offered without grant subsidy but are offered at subsidized interest rates. Coal severance tax revenue is used to pay the difference between payments received from local governments and the coal severance tax bond debt service payments.

2) Small projects are funded with proceeds from the sale of general obligation (G.O.) renewable resource bonds. By statute, the amount of a single loan financed with renewable resource bonds is limited to $200,000. Debt service payments are funded with the principal and interest loan payments made by the borrowers. Although the small loans are available to both public and private entities, public loans are usually funded

with coal severance tax bonds rather than the renewable resource bonds.

Governor's Budget Proposal - RRGL

The DNRC received 51 applications for renewable resource grants and loans, which are appropriated in HB 6 and HB 8, respectively. The department and the Governor are recommending 48 grants and loans be approved for funding in priority order as shown on the following table. Revenue will be available to fund about half of the recommended projects. Volume 6 of the Governor's Budget presents these recommendations in their entirety and the separately-published renewable resource grants and loans appendix contains the complete technical assessment of each project.

Table 1
Renewable Resource Grant and Loan Program
1999 Biennium Recommendations

Rank	Applicant / Project Name	Total Project Cost	Recommended Grant	Cumulative Grant Funding	Loan Funding Requested
*	DNRC Funding for Emergency Grants		$125,000	$0	
1	Mt Reserved Water Rights Compact Commission --Chippewa-Cree Water Rights Settlement	$150,000	$100,000	$100,000	
2	Broadwater County Conservation District --Slim Sam Riparian Area Implementation	62,795	47,080	147,080	
3	Sheridan County Conservation District --Sheridan County Groundwater Management Pgm	256,816	95,412	242,492	
4	Cascade County Conservation District --Agrimet Irrigation Water Management Project	160,300	100,000	342,492	
5	East Missoula Sewer District -- Wastewater Treatment and Collection System	4,600,000	100,000	442,492	
6	MT Natural Resource Information System --Montana Climate Information Center	148,260	99,781	542,273	
7	Fort Benton, City of --Water Distribution Improvements & Meters	1,020,667		542,273	$520,480
8	Cascade, Town of --Wastewater System Improvements	2,336,500	100,000	642,273	
9	Greenfields Irrigation District --J" Lake - Reregulation Reservoir	1,399,302	100,000	742,273	
10	Valier, Town of --Wastewater Treatment Facility Upgrade	1,200,000	100,000	842,273	
11	Lakeside Water District Water System Improvements	1,100,000		842,273	600,000
12	Beaverhead County Board of Commissioners --Big Hole River Return Flow & Water Budget	224,800	100,000	942,273	
13	MT Bureau of Mines and Geology --Groundwater Protection & Ed for Rural Schools	113,923	99,959	1,042,232	
14	Lake County Land Services --Evaluate Level II Treatment for Individual Septic	105,000	100,000	1,142,232	
15	Gallatin County Local Water Quality District --Groundwater Evaluation and Monitoring Project	319,654	100,000	1,242,232	
16	Bloomfield School District #30 --GeoSource Heat/Cool System	20,875	18,375	1,260,607	
17	Choteau, City of --Rehabilitation of Sewer System	400,000	100,000	1,360,607	
18	Yellowstone County --Conservation Resource Inventory, Billings Area	53,250	29,250	1,389,857	
19	Glasgow Irrigation District --Vandalia Diversion Dam - Rehabilitation Plan	98,221	98,221	1,488,078	
20	Roosevelt County Conservation District --Ft Peck Assiniboine & Sioux Off-Reservation Water	64,561	64,561	1,552,639	
21	Chouteau County (Highwood) --Highwood Infrastructure Improvements	1,463,121	100,000	1,652,639	106,321
22	Pondera County Conservation District --Lake Frances Shoreline Rehabilitation Project	93,110	20,000	1,672,639	
23	Neihart, Town of --Water Distribution System	361,028	100,000	1,772,639	
24	Ruby Valley Conservation District --Ruby River Water Management & Conservation	144,577	99,741	1,872,380	
25	MT Dept. of Environmental Quality --Direct Planning Grants to Small Communities	181,818	100,000	1,972,380	
26	Chouteau County and Fergus County --PN Bridge & Campground-Streambank Erosion	91,375	76,450	2,048,830	

Table 1 (continued)
Renewable Resource Grant and Loan Program
1999 Biennium Recommendations

Rank	Applicant / Project Name	Total Project Cost	Recommended Grant	Cumulative Grant Funding	Loan Funding Requested
27	Missoula, City of --Reserve Street South Sewer Project	3,294,000	100,000	2,148,830	
28	Fort Shaw Irrigation District --Irrigation Efficiency and Water Quality	531,700	100,000	2,248,830	
29	Custer County Soil and Water Conservation Dist. --Livestock Waste on Irrigated Croplands	135,560	97,460	2,346,290	
30	Thompson Falls, City of No. 2 --Waterline Replacement	558,595	100,000	2,446,290	100,000
31	Chinook, City of --Water Treatment Plant Improvements	627,110		2,446,290	294,000
32	Park County --Hydrological Reconnaissance of Paradise Valley	215,900	100,000	2,546,290	
33	Twin Bridges, Town of --Water System Improvements	1,268,500	100,000	2,646,290	200,000
34	Lewis & Clark County Water Quality Protection --Lower Tenmile Resource Assessment	214,410	100,000	2,746,290	
35	Hill and Liberty County Conservation Districts --Water Resource Evaluation-Sage Creek Watershed	150,833	100,000	2,846,290	
36	Lewis and Clark County --Flood Mitigation Plan	42,500	39,500	2,885,790	
37	Glasgow, City of --Sanitary Sewer Separation Project	2,048,000	100,000	2,985,790	
38	Meagher County Conservation District --Cottonwood Creek Watershed Treatment	219,527	60,306	3,046,096	
39	Fort Benton, City of --Irrigation & Community Forestry Rehabilitation	169,480	100,000	3,146,096	
40	DNRC Forestry Fire and Aviation Mgmt Bureau --Western MT Fire Hazard Assessment GIS Project	109,564	100,000	3,246,096	
41	Chester, Town of --Water Treatment Plant & Storage System Imp.	884,000	100,000	3,346,096	
42	Thompson Falls, City of #1 --Water Supply Improvements 1	261,963	100,000	3,446,096	100,000
43	Ekalaka, Town of --Water System Improvement Project	354,000	41,000	3,487,096	
44	Roundup, City of --Wastewater Treatment Facility	2,391,187	100,000	3,587,096	
45	Livingston, City of --Livingston Open Space Conservation Initiative	130,000	27,000	3,614,096	
46	Yellowstone County --Alkali Creek Streambank Stabilization & Park	180,000	100,000	3,714,096	
47	Fort Peck Rural County Water District --Fort Peck Water System Development	39,000	36,000	3,750,096	
48	Yellowstone Conservation District --Watershed Planning-Integrating Geospatial Info	200,000	100,000	3,850,096	
49	Culbertson, Town of --Wastewater Collection and Treatment Project	626,518	No Funding	3,850,096	
50	Eastern Agricultural Research Center --Alternative Irrigation Systems & Alternative Crops	243,600	No Funding	3,850,096	
51	Richland County --Lone Tree Creek Channel Rehabilitation	797,500	No Funding	3,850,096	
		$31,663,400	$3,850,096	$3,850,096	$1,920,801

* The $125,000 recommended for emergency grants would be included in HB 6 but would be funded from the remaining interest earnings distributed to the renewable resource account. Thus, the appropriation would not come from the $2.0 million for grants.

LFD Issues

1) Table 1 shows a list of prioritized recommendations beyond the $2.0 million funding level. The legislature usually approves some grant awards beyond the limit in case projects with higher priorities become ineligible for funding or withdraw their applications.

2) The DNRC is, once again, requesting a lump sum appropriation to the department in the amount of $125,000 to fund emergency grants during the biennium. During the 1997 biennium, this amount was included within the $2.0 million funding level established under 15-38-202, MCA, for the RRGL program. For the 1999 biennium, DNRC is requesting the $125,000 appropriation from the renewable resource grant and loan account in addition to the $2.0 million level of funding. Although this request is not prohibited statutorily, the legislature may wish to include the $125,000 within the $2.0 million amount due to the fact that the Executive Budget results in an over-allocation of funds from the renewable resource account (see the "Department of Natural Resources and Conservation" agency presentation in Section C for details.) Including DNRC's request for emergency grants within the $2.0 million allocation would increase by $125,000 the amount available for other appropriations to be made from the account.

3) There are four projects recommended for loans in HB 8 which have been approved by the Department of Commerce (DOC) through the Treasure State Endowment Program (TSEP) application process. Project and funding information for these awards is provided in Table 2 under the "Treasure State Endowment Program" section. The four entities include: the Fort Peck Water District, the City of Choteau, the Coram Water and Sewer District, and the City of Livingston. The loan funding recommendation for the four projects totals $1.9 million.

Reclamation and Development Grant Program

RIT trust interest earnings in the amount of $3.0 million are to be deposited into the reclamation and development grant account each biennium for the purpose of making grants (15-38-202, MCA). The RDGP is designed to fund projects that:

> "...indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana" (90-2-1102, MCA).

As provided in statute, projects approved under the RDGP are intended to:

> 1) repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction; and
>
> 2) develop and ensure the quality of public resources for the benefit of all Montana citizens.

The RDGP is also administered by DNRC, which solicits, evaluates, and ranks each application on a biennial basis. Those eligible to apply for grants include state and local governments, political subdivisions, and tribal governments. Applications are evaluated according to specific criteria related to: 1) public benefit; 2) need and urgency; 3) appropriateness of technical design; 4) financial feasibility; and 5) project management/organization. No grant may exceed $300,000. DNRC forwards a list of recommendations to the Governor, who reviews the list and submits funding recommendations to the legislature.

Governor's Budget Proposal - RDGP

The DNRC received 30 applications for reclamation and development grants, which are appropriated in HB 7. The department and the Governor are recommending approval of 17 projects, all except two of which are mineral reclamation projects. About 11 of the 17 projects recommended would receive funding on a priority basis from the $3 million available. There are recommendations for more than $1.5 million in oil and gas related reclamation and $1.5 million in hard rock mining related reclamation and studies. Two crucial state need projects are recommended for approximately $260,000 in grants. Volume 5 of the Governor's Budget presents these recommendations in their entirety and the separately-published reclamation and development grants appendix contains the complete technical assessment of each project. Table 2 lists the Governor's recommendations for RDGP grant awards, in priority order.

Table 2
Reclamation and Development Grant Program
1999 Biennium Recommendations

Rank	Applicant / Project Name	Total Project Cost *	Recommended Grant Funding	Cumulative Grant Funding
**	MT Board of Oil and Gas Conservation Balco Disposal Facility Plug & Abandonment & Site Restoration	$610,000	$600,000	$600,000
1	MT Dept. of Natural Resources and Conservation Reliance Refinery Soils and Sludge Cleanup No. 1	375,000	300,000	900,000
2	MT Dept. of Natural Resources and Conservation Reliance Refinery Soils and Sludge Cleanup No. 2	357,300	282,300	1,182,300
3	MT Dept. of Environmental Quality Nancy Lee Mine Complex	3,505,914	286,914	1,469,214
4	MT Dept. of Environmental Quality Nellie Grant Mine Reclamation Project	1,488,040	288,040	1,757,254
5	Powell County Charter Oak Mine and Mill Reclamation	517,550	300,000	2,057,254
6	Mile High Conservation District Highland Mill Reclamation	460,084	258,070	2,315,324
7	Butte-Silver Bow Local Government Upper Clark Fork Basin: Superfund Technical Assistance	228,459	91,532	2,406,856
8	MT Board of Oil and Gas Conservation 1996 "A" Orphaned Well Plug & Abandonment & Site Restoration	174,222	164,222	2,571,078
9	Carbon County Dry Hydrants	400,427	157,579	2,728,657
10	Toole County North Toole County Reclamation Project	71,988	40,000	2,768,657
11	MT Board of Oil and Gas Conservation 1996 "B" Orphaned Well Plug & Abandonment & Site Restoration	200,000	190,000	2,958,657
12	MT State University - Reclamation Unit Reclaimed Metal Mine Lands: Agricultural Uses & Restrictions	179,468	129,114	3,087,771
13	MT Bureau of Mines and Geology Training - Environmentally & Economically Sound Resource Dev.	102,171	49,722	3,137,493
14	Walkerville, Town of Walkerville Plan for Development of Reclaimed Mine Properties	46,200	40,700	3,178,193
15	Butte-Silver Bow Local Gov. Walkerville Plan for Development of Reclaimed Mine Properties	197,110	145,280	3,323,473
16	Yellowstone Conservation District Watershed Planning in Montana Integrating Geospatial Info	200,000	100,000	3,423,473
	Butte-Silver Bow Local Government Butte Mine Subsidence Reclamation	365,237	No Funding	
	Deer Lodge Valley Conservation District Development of Acid / Heavy Metal Tolerant Cultivars	150,500	No Funding	
	Lewis and Clark County Water Quality Protection District Tenmile Mine Site Reclamation Project Phase II	297,565	No Funding	
	Missoula, City of Glacial Lake Missoula: An Untapped Natural Resource Oppor	295,924	No Funding	
	MT Board of Oil and Gas Conservation 1996 "C" Orphaned Well Plug & Abandonment & Site Restoration	310,000	No Funding	
	MT Bureau of Mines and Geology Oil & Gas Potential Along Fromberg Fault Zone, S. Central MT	150,260	No Funding	
	MT Dept. of Environmental Quality Non-Point Source Pollution Control	1,857,209	No Funding	
	MT State University - Extension Service MT Local Government Pollution Prevention Project	474,681	No Funding	
	MT State University - Reclamation Unit Reclaiming Acid Mining Waste Using Industrial By-Products	413,232	No Funding	
	North Powell Conservation District Watershed Approach to Mine Waste Cleanup in Blackfoot Basin	244,000	No Funding	
	Rosebud Conservation District Hydrologic & Geologic Feasibility-Coal Mine Pits as Water Impounds	453,443	No Funding	
	University of MT - Geology Department Gold Resource & Groundwater Contamination, Judith Mountains	64,985	No Funding	
	Yellowstone County South Billings Boulevard Gravel Pit Reclamation	331,000	No Funding	

* The Total Project Cost reflects the recommended amount and may differ from the original request.
** The Board of Oil and Gas Conservation has priority for $600,000 in grants. The Balco Disposal Facility is guaranteed funding.

LFD Comment **- As shown in Table 2, grant awards have been prioritized beyond the funding level of $3.0 million. The legislature usually approves grants beyond the funding limit, in case projects having a higher priority become ineligible for funding or withdraw their applications.**

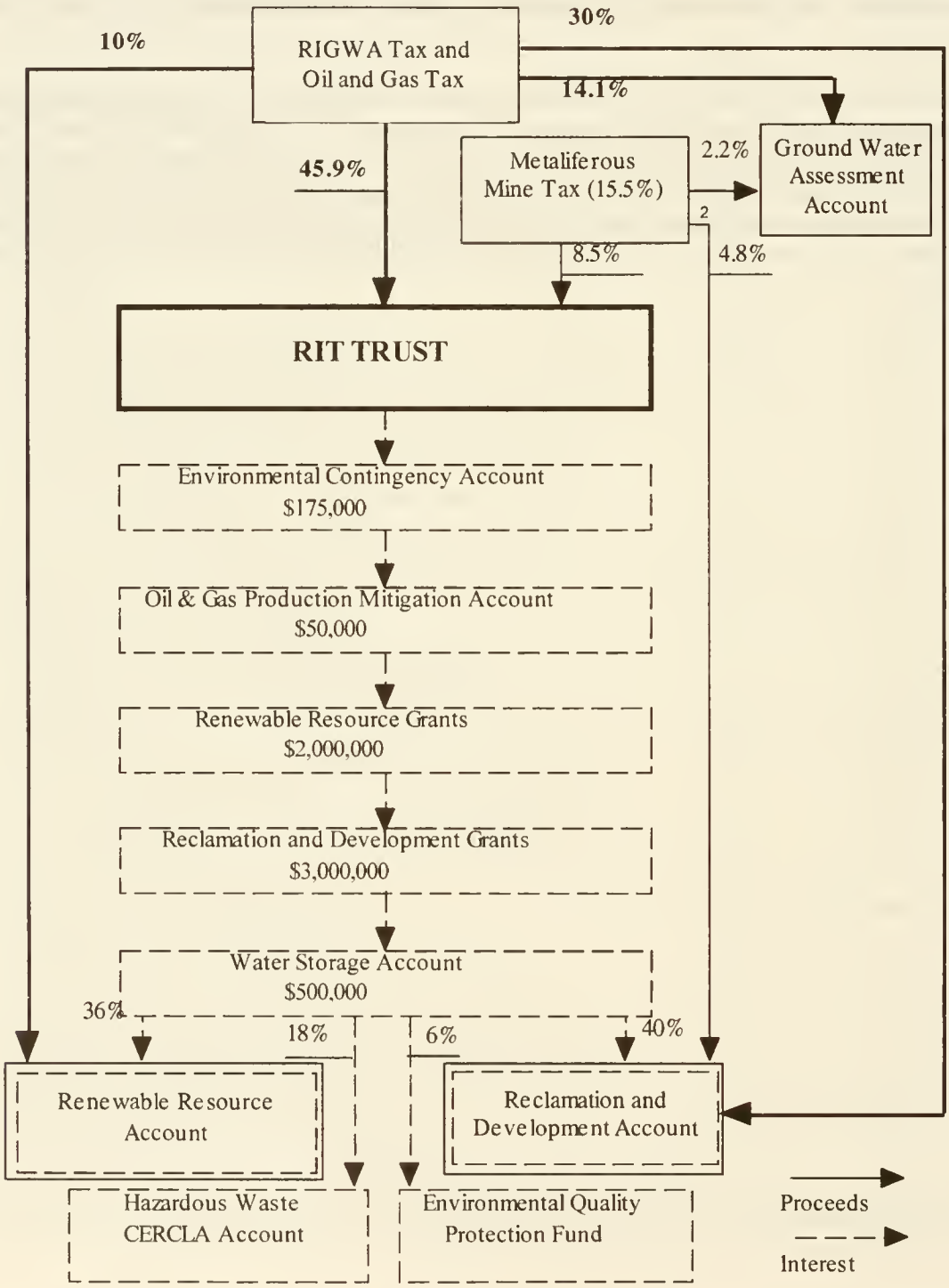
Additional Executive Recommendations

Changes to the allocation of the metalliferous mines license tax statute, 15-37-117, MCA, in the 1995 session, resulted in an over allocation of this tax. Under current law, the total allocation of this tax would add up to 107 percent starting with fiscal 1998. Recognizing this error, the Revenue Oversight Committee is sponsoring legislation to correct the problem. The executive supports the efforts of the committee in this regard and assumes the over allocated amount comes from deposits to the trust.

Finally, the executive concurs with the Legislative Finance Committee (LFC) that a cash flow problem is projected for fiscal 1998 in the hazardous waste/CERCLA and EQPF accounts. The executive would support legislation proposed by the committee to allocate the funding for reclamation and development and for renewable resource grants on an annual basis. Instead of allocating the $5 million available for grants in fiscal 1998, the grants would receive $2.5 million each year of the 1999 biennium if this legislation were passed. Such action would not affect the ability of the DNRC to fund the grants, but would eliminate the cash flow problem in the DEQ. Chart 1 on the next page shows the flow of funds related to the various RIT accounts.

Chart 1

ALLOCATION OF RITT PROCEEDS AND INTEREST



LFD Comment - **In addition to sponsoring legislation providing for annual, versus biennial, appropriations of grant funds, the LFC is sponsoring other RIT-related legislation. The LFC will introduce a bill recommending a comprehensive study of the "constitutional resource indemnity trust and the statutory resource indemnity trust tax." This study would be performed cooperatively by the LFC, the ROC, and the Environmental Quality Council. They would be required to report their findings and recommendations to the 56th Legislature.**

Additional RIT Trust Information

As shown in Chart 1, the RIT trust find receives income from RIGWAT, oil and gas, and metalliferous mines license tax proceeds. In addition to the RIT trust fund, three state special revenue accounts receive a percentage of these tax revenues: the reclamation and development account, the groundwater assessment account, and renewable resource account.

As mentioned previously, funds deposited in the RIT trust fund are invested by the Board of Investments. Based on assumptions adopted by the ROC, interest earnings from these investments are forecast to be $7.878 million in fiscal 1998 and $7.966 million in fiscal 1999. Five state special revenue accounts receive statutorily-established amounts of RIT trust fund interest earnings for the 1999 biennium as follows:

- Environmental contingency account - $175,000;
- Oil and gas mitigation account - $50,000;
- Reclamation and development grants account - $3 million;
- Renewable resource grant and loan account - $2 million; and
- Water storage account - $500,000.

Upon authorization of the Governor, funds in the environmental contingency account (ECA) are statutorily appropriated for unanticipated public needs arising from certain disasters and emergencies. If the balance in the ECA is less than $750,000, then up to $175,000 of the RIT interest revenue is deposited in the ECA at the beginning of each biennium. The current unobligated balance of the ECA is $430,493. Therefore, the entire $175,000 allocation of RIT trust fund interest will be deposited in fiscal 1998. In the 1997 biennium, the Governor has approved four requests for emergency financial assistance from the ECA, including whirling disease emergency ($4,501), critical funding for the East Fork of Rock Creek dam in Granite County ($110,000), repair of the West Side Canal in Beaverhead County ($30,000), and reclamation measures at Pony Mine and Mill site in Madison County ($35,000).

The oil and gas mitigation account is administered by the Board of Oil and Gas Conservation. Funds in the account are statutorily appropriated to the board for the costs of plugging wells that have been abandoned and for whom no responsible party can be found. By statute, if the balance in the account is less than $200,000, up to $50,000 is deposited each biennium. In the 1997 biennium, the board authorized use of $35,409 for state matching funds on reclamation and development grants to plug abandoned wells. The board is evaluating a leaking well in northeastern Montana and is likely to authorize more than $20,000 from the mitigation account to plug this abandoned well. If this project is approved, the balance in the account will fall below $150,000 and the full $50,000 allocation would be deposited to the account in fiscal 1998.

Reclamation and development grants receive $3 million in RIT interest for state and local government projects that reclaim land damaged from past mineral development and for other crucial state needs. Renewable resource grants receive $2 million for a wide range of natural resource projects funded through state and local governments.

The water storage account receives $500,000 each biennium to fund the repair of dams. This fund has been used to pay for a portion of the repair costs of the state-owned Tongue River dam located in southeastern Montana. House Bill 5, passed in 1995, established an appropriation of $1.746 million from the water storage account for this repair. To fund the appropriation, nearly all 1997 biennium balances were used and the entire 1999 deposit of $500,000 will be needed.

After these accounts have received their full allocation, all remaining interest earnings are distributed to four state special revenue accounts on a percentage basis. These accounts are:

- Renewable resource account administered by the DNRC - 38 percent;
- Reclamation and development account administered by the DNRC - 40 percent;
- Hazardous waste/CERCLA account administered by the Department of Environmental Quality (DEQ) - 18 percent; and
- Environmental quality protection fund (EQPF) administered by the DEQ - 6 percent.

Cultural and Aesthetic Grant Program

Background

The Cultural and Aesthetic Grant Program began in the 1979 biennium. Funding for the program comes from coal tax interest earnings generated by the cultural trust fund. As provided in 15-35-108(6), MCA, income from this nonexpendable trust is "for protection of works of art in the state capitol and other cultural and aesthetic projects." The program, initially administered by the Montana Historical Society, began with a single project designed to restore mural paintings in the Capitol.

In the 1985 biennium, administration of the program was transferred to the Montana Arts Council (MAC) and the legislature appropriated funding for 39 projects. Because of rapid program growth, the MAC developed a formal application process. Grant applications for cultural and aesthetic (C&A) projects are submitted to the MAC on a biennial basis. Eligible applicants include the state of Montana, regional, county, city, town, or Indian tribal governments. Each application is reviewed by a 16-member Cultural and Aesthetic Projects Advisory Committee (CAPAC), with eight members appointed by the MAC and eight appointed by the Montana Historical Society. CAPAC prioritizes the requests and makes funding recommendations to the legislature as part of the Executive Budget. All grants require legislative approval in accordance with Title 22, Chapter 2, part 3 of the MCA.

Outlined below are the total appropriations, amounts expended, and the number of projects authorized for the 1979 through the 1997 biennia. Since its inception, the program has distributed nearly $9 million in trust fund earnings to 209 organizations. The corpus of the trust is approximately $7.5 million as of July 1, 1996.

Table 1
History of Cultural and Aesthetic Grant Account

Biennium	Appropriated	Expended	Projects
1979	$50,000	$50,000	1
1981	140,000	140,000	3
1983	641,680	602,042	15
1985	823,479	810,704	39
1987	1,476,511	1,414,114	63
1989	1,211,817	1,099,290	53
1991	1,298,788	1,184,661	65
1993	1,551,323	1,531,239	88
1995	1,706,735	1,267,952	93
1997	861,344	838,849 est	77
1999	891,978 recommended		93

Governor's Budget Proposals

The Office of Budget and Program Planning estimates that $1,239,500 in interest earnings will be available for appropriation during the 1999 biennium, which is recommended for appropriation as follows:

- HB 2 budget contains $116,978 in fiscal 1998 and $120,241 in fiscal 1999 for MAC administration and for the folklife project, consistent with prior biennia;

- HB 9 recommends $891,978 for 93 projects as prioritized by the advisory panel and listed in Table 2; and

- HB 9 includes $15,000 for Capitol mural restoration and $95,000 for Capitol stained glass restoration through the Montana Historical Society, the latter of which is designated in the bill as the last priority for use of available funds.

The three recommendations leave a balance of about $300 in the account, plus the yet-to-be projected fiscal 1997 carry forward balance.

Table 2
Cultural & Aesthetic Projects
1999 Biennium Grant Recommendations

Rank	Benefitting Organization	Title	Recommend
Special Projects - $4,500 or less			
1	Yellowstone Ballet Company	Romeo & Juliet & Western Women Ballet Production	$4,400
2	MT Preservation Alliance	Statewide Technical Assistance Program	3,000
3	Granite Co. Museum & Cultural Center	Staff Salaries and Historic Preservation	4,000
4	SunCreek Films	SunCreek Film Festival Series	2,000
5	Northern Showcase	Northern Showcase Performing Arts Series	3,500
6	MT Five Rivers Film Festival	Montana Five Rivers Film Festival	2,000
7	Northern Heights Tenants Assoc.	Artist Residency	3,000
8	MT Storytelling Conference	Storytelling Conference	3,000
9	Council for the Arts, Inc., Lincoln	Performing Arts Series Artist Fee Support	2,500
10	The Country Grain Elevator Hist Soc	Newsletter to Promote Conservation of Grain Elevators	1,500
11	MT Chamber Music Festival	Montana Chamber Music Festival Outreach	0
12	MT State Theater Association	Operating Support	0
Special Projects			
1	MT Committee for Humanities	Speakers' Bureau Program Support	$30,000
2	Liberty Village Arts Center & Gallery	Phillip Aaberg Artist in Residency	15,000
3	MT Historical Society Press	MT Mainstreets-Guidebooks to Historic MT Communities	20,000
4	Carbon County Historical Society	Peaks To Plains Initiative	16,000
5	The Montana Repertory Theatre	Arts Education Conrdinator/Program Development	20,000
6	Western Heritage Center	Explore the Yellowstone Exhibit & Education Activities	19,800
7	Yellowstone Art Center	Opening the Museum: The Montana Collection	20,000
8	The Virginia City Preservation Alliance		5,400
9	MT Performing Arts Consortium	Expansion of Rural Regrant Program	30,000
10	MT Arts Foundation	Operational Support and Rural Community Regrant	28,000
11	Alberta Bair Theater	Operating Support	10,000
12	Missoula Children's Theatre	Rural Montana Tour Project	20,000
13	Native Voices	Artistic/Technical Media Training for Native Americans	18,000
14	H. Earl Clack Museum	Museum Learning Center & Expansion of Exhibit	10,000
15	Little Rockies Arts Association	Executive Directnr Salary Support	8,000
16	Butte Symphony Orchestra	SW MT Youth Orch/Butte Sym Orch/Mgr to Half Time	4,000
17	Hockaday Center for the Arts	Hockaday Center for the Arts Education Program	15,000
18	Great Falls Symphony	Ensemble Outreach	8,500
19	Livingston Depot Foundation	Museum Promotion through Tours & Educational Outreach	10,000
20	Young Audiences of Western Montana	Tour Support	8,000
21	Billings Preservation Society, Inc.	Education Director Position Support	6,000
22	Glacier Orchestra and Chorale	Glacier Orchestra & Chorale Artistic Support Project	12,500
23	Missoula Community Access TV	The Montana Media Arts in Education Project	10,000
24	Missoula Symphony Association	Missoula Symphony Orchestra Educational Outreach	4,500
25	MT Hist. Snc/Library & Archives	Process & Preserve Historical State Medical Records	12,000
	Contingency: that privacy of persons in records must be maintained.		
26	Southwest MT Arts Council	Salary Support and Marketing Support	5,000
27	UM/Broadcast Media Center	U of M Broadcast Media Center Cultural Productions	16,000
28	Bozeman Symphony Orchestra	BSO Outreach Recording Project	3,000
29	Center for Native American Studies	Native American Awareness Week 1998	3,500
30	MT Indian Contemporary Arts	NPN Artist Residencies and Annual Symposium	6,000
31	Very Special Arts Montana	Governor's Art Show - Touring Exhibit	8,000
32	Grandstreet Theatre	Theatre School Director Salary Support	5,000
33	MSU-Billings Inter-Tribal Indian Club	1998 & 1999 MSU Annual Inter-Tribal PowWows	5,000
34	Helena Symphony Society	Cascade String Quartet Residency	5,000
35	The Helena Art Center	Rural Outreach	3,000
36	MT Ass'n of Symphony Orchestras	MASO: Building Momentum - Rural Outreach & Service	15,000
37	Holter Museum of Art	Old Paint New: The Image of the Horse in Contemporary Art	16,000
38	VIAs, Inc.	Discovering Lewis & Clark: World Wide Web Site	10,000
39	MSU-Billings	Montana Moments: A Radio Series	4,000
40	MT Chorale	Operating Support	5,000
41	Missoula Writing Collaborative	Writers-in-the-Schools	3,000

Table 2 (continued)
Cultural & Aesthetic Projects
1999 Biennium Grant Recommendations

Rank	Benefitting Organization	Title	Recommend
42	MT Alliance for Arts Education	Arts Education Awareness and Advocacy Project	8,000
43	MSU Libraries	Farm, Ranch & MT Pioneer Women Collections Conservation	3,120
	Contingency: grant funds are to be used for supplies.		
44	The Montana Transport Company	1998-1999 Rural Montana Tours	8,000
45	Wolf Point Productions	Against the Grain: Dramatic Feature Film	7,000
46	Bozeman Hist. Pres. Advisory Comm.	The Bozeman Area Historic Walking Tours/Talking House	3,500
47	Deaconess-Billings Clinic	The Healing Environment	0
48	Picture Tomorrow	Working the Woods, A Photographic Survey	0
49	Maggie Wagner	Big Timber Bygones: A Community Memory Album	0
50	Going-to-the-Sun Institute	Plains Indian Educational Game Development	0
51	Haynes Fine Art Gallery	MSU Traveling Faculty Exhibition	0
Operational Support			
1	The Writer's Voice - YMCA	Operational Support	$18,000
2	MT Shakespeare in the Parks	Operational Support	20,000
3	MT Art Gallery Directors Association	Operational Support	22,000
4	Billings Symphony Society	Operational Support	12,500
5	Vigilante Players, Inc.	Operational Support	20,000
6	Archie Bray Fndn. for Ceramic Arts	Operational Support	15,000
7	Helena Presents	Operational Support	25,000
8	Hellgate Writers, Inc.	Operational Support	9,000
9	Custer County Art Center	Operational Support	15,000
10	International Wildlife Film Festival	Operational Support	6,000
11	MT Dance Arts Association	Operational Support	5,000
12	Copper Village Museum & Arts Center	Operational Support	10,000
13	Growth through Art, Inc.	Operational Support	5,000
Capital Expenditure			
1	Museum of the Rockies	Rockies Rise Again-Permanent Exhibition Construction	$20,000
2	Fort Peck Fine Arts Council, Inc.	Ft. Peck Theatre Electrical Improvements & Toilet Rooms	30,000
3	Whitefish Theatre Co.	Whitefish Cultural Arts Center	20,000
4	Fort Connah Restoration Society	Fund Raising for Acreage to Secure Legal Access	14,000
	Contingency: clarification is requested as to how much land is being purchased and what entity holds ownership.		
5	Arlee Historical Society, Inc.	Septic, Drainfield, Roof Installation	4,358
6	Rialto Community Theatre, Inc.	Rialto Comm. Theater Stage Area Electrical Upgrade	5,400
7	Gallatin County Historical Society	Attached Building Conversion to Museum use	4,000
8	MT Agricultural Center & Museum	Roof Replacement MT Agricultural Center & Museum	10,000
	Contingency: 3:1 match must be expended or encumbered during the grant period.		
9	Sanders Community Hall, Inc.	Water System for Sanders Community Hall, Inc.	4,000
10	Upper Blackfoot Valley Hist. Society	Restoration of 2 Historic Miner Cabins at Museum	7,000
11	Old Towne Development Corp.	St. Ignatius Outdoor Performing Arts Center	4,000
12	Paris Gibson Square Museum of Art	Capital Expenditure Historic Window Replacement	22,500
13	C.M. Russell Museum	Restoration of C.M. Russell Residence	12,500
Challenge Grant			
	Paris Gibson Square Museum of Art	Endowment Challenge for Paris Gibson Square	$5,000
	Billings Pres. Soc. Endowment Trust	Building a Permanent Endowment for the BPS, Inc.	5,000
	Glacier Orchestra and Chorale	Glacier Orchestra & Chorale Perm Endow Chall Grant	5,000
	Great Falls Symphony	Endowment Challenge	5,000
	Total		$891,978

Funding

Table 3 shows the projected funding for the Cultural and Aesthetic (C&A) Grant Program for the 1999 biennium. Revenue estimates shown in Table 3 are based on assumptions adopted by the Revenue Oversight Committee (ROC). These estimates, combined with the proposed expenditures, result in a projected ending fund balance of $341,897 rather than the $300 projection by the executive as mentioned above. The reason for the difference is that revenue estimates for fiscal years 1997 through 1999, which are based on assumptions adopted by ROC, are higher than those used by the executive.

Table 3
Cultural & Aesthetic Grant Program
Fund Balance Projection, 1999 Biennium

Estimated Beginning Fund Balance		$293,928
*Revenue Projections		
Fiscal 1998 Interest	$635,972	
Fiscal 1999 Interest	651,194	
Total Funds Available		$1,581,094
Proposed Expenditures		
Administration and Folklife	$237,219	
Capitol Mural Restoration	15,000	
Grants	891,978	
Capitol Stained Glass Restoration	95,000	
Total Expenditures		$1,239,197
Projected Ending Fund Balance		$341,897

*Based on assumptions adopted by ROC.

LFD Issue - The fund balance amount of $341,897 was not included in the Governor's Budget request for C&A grant funding. Therefore, the legislature has several options to consider regarding the appropriation of these additional C&A funds.

Options

1) The legislature could approve the initial executive proposal shown in Table 2, leaving a projected ending fund balance of $341,897 in the C&A account. If this amount is realized, these additional funds would be available for appropriation during the next biennium.

2) In response to the higher revenue estimates, the CAPAC reconvened to allocate an additional $325,037 of the $341,897 projected ending fund balance for increased grant awards. Their recommendations, if approved, would result in total C&A grant awards of $1,217,015 versus the $891,978 figure shown in Table 3, and a projected ending fund balance of $16,860.

The legislature could appropriate an additional $325,037 in C&A grant awards, leaving an ending fund balance of $16,860. However, an ending fund balance of $16,860 represents only 1.3% of total revenue for the account, putting expenditures from the account at risk should revenue shortfalls occur.

3) In the agency budget proposed for the MAC, the Governor has requested $713,867 for the biennium in general fund support above the fiscal 1996 base. This increase in general fund support would: 1) replace lost federal funding and restore 2 of 3 FTE lost in fiscal 1997, and 2) increase overall funding for the arts in the 1999 biennium. Of this $713,867 biennial total, $183,419 is requested for administrative costs (an increase from $737,015 to $920,434) and $530,448 is requested for grants (an increase from $1,282,218 to $1,812,666). A discussion of this request is provided in the MAC's portion of Section E.

The legislature could appropriate some of the $341,897 in C&A revenue for additional funding in the MAC's operating budget to cover administration and/or grant expenses.

LFD Issue - The expenditure amounts provided are based on the Governor's Budget Proposals outlined above. As in the past, it is recommended that interest earnings from the cultural trust be used to fund: a portion of the administrative costs for MAC, grants for C&A projects, and a $15,000 appropriation to the Montana Historical Society for the preservation of artwork in the capitol building (see 5-11-115(4), MCA). For the 1999 biennium, however, the executive proposal also recommends that $95,000 in interest earnings be appropriated to the Montana Historical Society for *stained glass restoration in the capitol building.*

The recommended appropriation of $95,000 is in addition to a request for $2.3 million in bonding for historic restoration in the capitol building included in the Governor's Long-Range Building Program (LRBP) proposal. A portion of the $2.3 million is included for stained glass work. Due to a lack of information, it is not clear how these two proposals differ. Therefore, the legislature may wish to consider the following options in regard to approval of the requested $95,000 appropriation.

Options

1) The legislature may wish to approve both requests for funding related to the preservation of stained glass in the capitol building, as requested by the executive.

2) The legislature may wish to make the appropriation of $95,000 in cultural trust interest earnings contingent on the failure of the LRBP proposal for historic restoration in the capitol.

3) Because the capitol historic restoration project under the LRBP is recommended for bonding, with the general fund statutory appropriation to pay the debt service, the legislature may wish to reduce the $2.3 million LRBP request by $95,000 contingent on final legislative approval of the expenditure of cultural trust interest earnings for stained glass restoration in the capitol.

4) As mentioned above, the executive is requesting an increase in monies from the general fund for the MAC's operating budget. Therefore, the legislature may wish to appropriate the $95,000 for additional funding of MAC administrative costs, in lieu of stained glass restoration. Combined with the projected ending fund balance of $341,897, as much as $436,891 could be available for funding MAC's administrative budget.

LFD Issue - Regardless of the projected ending fund balance, revenue shortfalls do sometimes occur as a result of an economic downturn. When revenues are insufficient to fund all of the C&A grant awards made, the MAC addresses those shortfalls by prorating reductions in grant distributions. This methodology differs from the way reduced funding is handled in other grant programs and it is likely to be disruptive to all C&A grant recipients. Therefore, the legislature may wish to consider directing the MAC to actually fund grants on a priority basis as revenues become available rather than risk the need to reduce all awards and potentially disrupt or jeopardize projects already in progress.

Information Technology Bond Proposal

Background

Public-private partnership multi-year, multi-agency coordinated information technology (IT) projects are essential to conducting state and local government business. Coordinated investment in IT is especially important in a small state like Montana where neither the public sector nor the private sector have the capacity, volume of work, or financing to develop and maintain processing centers and major systems by themselves. Independent investments in IT by many agencies may be duplicative or inadequate to meet their needs. Fragmented information also does not meet public or private management and decision-making needs.

In addition, the year 2000 conversion problem of major state systems requires immediate attention. Because many of the state systems are 20 or more years old, fixing them would be nearly as expensive as replacing them with new, integrated systems. Some of the systems are so old that they cannot be converted at any cost and must be abandoned. Although it is difficult to project costs that will be avoided as a result of this recommendation, millions will be saved.

A report prepared by the independent accounting firm of Deloitte & Touche Consulting predicts that most of the remainder of the recommended investment will be recovered through future staff reductions. Automation is the one way operational costs can be reduced in the long run. Changes in the business environment are driving state and local government agencies and private corporations towards different choices about information management. Information is fast becoming a critical resource. Current databases suffer from excessive fragmentation and will not support the future business directions. New networks and systems are inevitable. Making a conscious policy decision to fund and develop integrated systems is recommended through the following proposals.

LFD Issue **- The executive introduction suggests the $55.1 cost of the Governor's Information Technology (IT) proposal can be justified for two key reasons:**

> **1) the state of Montana has no choice but to expend some amount of money to fix the "year 2000 conversion problem"; and**
>
> **2) any cost beyond what would be required to address the year 2000 problem will be recovered through increased efficiencies in operations, including savings due to staff reductions.**

The potential costs savings that may result from a major financial investment in information technology are discussed in the following narrative. There are, however, a few issues related to the year 2000 problem that are worthy of legislative consideration.

First of all, the "year 2000 conversion problem" impacts all state agencies and it must be resolved <u>before</u> the year 2000. (For more information on this issue, see the "Other Fiscal Issues" section of the LFD Overview Volume.) Based on information from other states, fixing the year 2000 problem could cost the state between $1.0 and $30.0 million. If approved by the 1997 legislature, the Governor's IT proposal would address the year 2000 in relation to many of the state's major systems, such as the state's accounting and payroll systems. However, the projects proposed here do not address this problem throughout state government.

Moreover, there is currently no comprehensive plan for addressing this problem in its entirety. Consequently, state budgets presented to the 1997 legislature may or may not include costs associated with fixing the year 2000 problem. The Information Services Division (ISD) in the Department of Administration (DoA) is studying the issue and will provide some information to the legislature. However, two questions that the legislature may wish to ask are:

1) What will be the cost to the state be to fix the year 2000 problem above and beyond what is covered by the executive $55.1 million proposal, if it is approved?

2) If none of the projects in the Governor's IT proposal are approved by the 1997 legislature, what will be the cost to just fix the year 2000 problem? How will these costs be addressed? How will a solution be implemented statewide? The executive states above that these costs are difficult to project, yet contends that "millions will be saved" if the Governor's IT proposal is implemented.

Governor's Budget Proposals

Building on the success of Massachusetts, Florida, and several localities in the bond market with IT projects, the state will define information technology as infrastructure and conceptualize technology as an asset. A bill will be introduced, at the request of the Governor, recommending approval of nine major projects that have been selected to comprise a public-private multi-state-and-local government agency coordinated partnership. If passed by two-thirds of the members of each house, three series of ten-year general obligation bonds would be issued in fiscal 1997, 1998, 1999, and/or 2000. The total for recommended IT issues is projected to be about $55 million. Some cost modifications may be submitted during the 1997 session because, as the Executive Budget is being completed, several study committees are continuing to work on their final reports for the projects.

As shown on the following table for each recommended project, the debt service payments would be made with general fund, state special revenue, federal special revenue, proprietary fund revenue, and private or other Montana University System (MUS) funds. The state general fund balance sheet includes $3 million general fund for 1999 biennium IT bond debt service. A summary description of each project, numbered consistent with the table, follows below.

Table 1
Information Technology Bonded Projects
(In Millions)

IT Projects	Proposed Cost	Years*	Proportional Funding Sources for Each Project: General Fund	State Special Revenue	Federal Special Revenue	Proprietary Fund	Private/Other Funds
1) UI/DOR Consolidation	$2.50	3	$1.25	$0.00	$1.25	$0.00	$0.00
2) Income Tax Modernization	9.90	3	9.90	0.00	0.00	0.00	0.00
3) Property Tax Systems Integration	4.05	2	4.05	0.00	0.00	0.00	0.00
4) Revenue Processing Center	7.50	3	3.40	1.50	1.60	0.00	1.00
5) MT PRIME: SBAS,P/P/P,PAMS, Procurement, Warrants, Bad Debt	16.00	2	7.50	3.00	3.00	2.50	0.00
6) MIBS Phases 3 - 5	0.50	1	0.50	0.00	0.00	0.00	0.00
7) Cadastral Mapping	4.00	4	0.40	0.60	1.00	0.00	2.00
8) Benefits Package	3.60	2	0.00	0.00	3.60	0.00	0.00
9) MUS Technology Initiative	7.00	3	3.50	0.00	0.00	0.00	3.50
Total	$55.05		$30.50	$5.10	$10.45	$2.50	$6.50

*Number of years for project implementation.

1) UI/DOR Consolidation -This $2.5 million proposal represents Phase II and Phase III of a project begun in August, 1993, to streamline and simplify wage-based employer reporting and related functions which presently occur in both the Department of Labor and the Department of Revenue (DOR). Phase I of this project was approved by the 54th Legislative Assembly and included: implementation of a single-stop registration process, harmonization of laws in the collections and administrative

areas, and the implementation of a single route for resolving disputes relative to employer/employment issues. The 1995 session also provided funding to perform a cost-benefit analysis of this proposed consolidation.

The analysis concluded it would be cost effective over a five-year payback period to pursue the consolidation. On that basis, the two departments have circulated a request for proposal (RFP) to solicit bids for the significant rewrite of the department computer systems necessary to support the consolidated approach. The proposals will be evaluated in December and a vendor will be chosen contingent on legislative approval of the bill requested by the administration and this bond bill recommendation. The funding recommended is for the cost of rewriting the computer processing systems in order to support a consolidation of employers' reporting for income tax withholding, old fund liability tax (OFLT), and unemployment insurance contributions. Bonds will be retired with one-half general fund and one-half federal special revenue.

LFD Issues - The 54th Legislature enacted HB 550, which provided improved taxpayer service to businesses by streamlining and simplifying wage-based reporting for withholding tax, unemployment insurance (UI) tax, and the Old Fund Liability Tax (OFLT). The fiscal note for HB 550 clarified that a cost-benefit analysis was to be conducted to determine the feasibility of integrating DOLI's UI tax collection functions into the Department of Revenue's (DOR) wage-based tax collection systems (UI/DOR integration). The fiscal note stated that if the cost-benefit analysis supported UI/DOR integration, an in-depth proposal was to be prepared for the 55th Legislature which would address personal services, operating, and system development costs. DOLI and DOR have concluded that the cost-benefit analysis supports UI/DOR integration.

As a result, the Executive Information Technology Bond Proposal includes $23.9 million of computer system upgrades for the DOR (including projects 2 through 4 discussed below), which includes $2.5 million for computer system enhancements necessary to accomplish the UI/DOR integration. This new proposal would provide for the upgrading of essentially all computer systems for individual income tax, revenue collection, and wage-based taxes in DOR. A second associated new proposal in DOR's agency budget (totaling $1.3 million over the biennium) is included to pay for increased contract auditing services to enhance revenue collections, and to transfer 34 to 38 FTE from DOLI to DOR.

The cost-benefit analysis, conducted by Andersen Consulting, assessed two alternatives over a five-year evaluation period. The first alternative, the least expensive to implement since it was more limited in scope, consisted of consolidating and re-engineering all common UI/wage-based withholding/OFLT taxes and processes; merging the UI Contributions Bureau into the DOR; and modifying the existing DOR computer systems to accommodate the UI/DOR integration. (This alternative is equivalent to the previously described $2.5 million UI/DOR computer upgrade component of the new proposal, and the $1.3 million new proposal for increased biennium auditing/reorganization costs). The report concluded that the anticipated benefit-to-cost ratio ranges from a high of 2.4 to a low of 1.3. The estimate of benefits ranged from $5.4 to $9.6 million over a five-year period, and included $3.2 to $6.4 million of enhanced revenues from increased taxpayer audits. Benefit-to-cost ratios above 1.0 are considered acceptable. A ratio of 1.3 indicates that estimated benefits exceed estimated costs by about 33 percent. To achieve the enhanced collections, an estimated five additional auditors are needed (and are reflected in the executive's new proposal for $1.3 million in additional costs). Other benefits include reduced reporting requirements for the business community, which are substantial but are difficult to measure with great accuracy.

Andersen Consulting's second alternative consisted of the department-wide upgrading of all computer systems, in addition to UI/DOR integration. It is equivalent to the executive proposal for $23.9 million as previously mentioned. The benefit-to-cost ratio ranged from a high of 11.1 to a low of 1.98, primarily due to the difficulty of accurately estimating projected benefits, which range from $29.7 million to $89.1 million over the five-year evaluation period.

Issues that the legislature may wish to consider are:

1) Should the UI/DOR integration occur given that:

a) the current computer system for UI Contributions collections at DOLI was upgraded two years ago, and is reported to function satisfactorily by agency officials; and

b) the goal of reduced reporting requirements for businesses could conceivably be achieved through greater interagency coordination that does not require an extensive computer system integration. For example, it is conceivable that one form could be developed that satisfies both DOLI and DOR reporting requirements, and that this form could be received by one agency and shared with the other, making use of the two existing separate computer systems;

2) If the UI/DOR integration is approved in concept, but the remaining $21.4 million of computer upgrades for all other systems at DOR are not approved for the 1999 biennium, should the UI/DOR integration be delayed until all DOR systems are upgraded in the future, given that:

a) DOR officials state that the existing DOR computer systems, into which the UI system would be integrated, are dated and will require extensive upgrading in the foreseeable future; and

b) the existing UI contributions computer system at DOLI is capable of fulfilling its required function during the interim.

2) Income Tax Modernization - This $9.9 million recommendation is for a three-year process of planning, defining, building, and implementing a new tax processing system which would be integrated with the other DOR operating systems such as revenue control and delinquent accounts receivable. The DOR and the legislature currently are dependant upon inefficient legacy tax processing systems which are characterized by redundant data and applications, growing performance requirements, limited user access, and increasing maintenance burdens that limit the ability to deploy new applications. The computer software architecture of these legacy systems reflects design and language protocol common in the '70s and early '80s that is now approaching the end of its useful life. In conjunction with the cost-benefit analysis performed on the UI/DOR project referenced above, the consultants recommended that the DOR not make further investment in its existing software portfolio. The consultants recommend that the DOR take advantage of the gains in pricing and efficiencies that can be found in operating on platforms other than exclusively on the mainframe and the DOR analysis of projected costs over the next decade confirms that report. Debt service payments will be made with general fund for income tax systems.

LFD Issue - As part of their budget request, DOR cites its mainframe usage growth rates at 30 percent per year as partial justification for the need to "operate on platforms other than ... the mainframe". The income tax division is requesting an increase in its present law budget of $622,144 in the 1999 biennium to pay for increased mainframe use; other programs in the DOR are also asking for increases. At the same time, ISD officials note that the larger mainframe applications, such as the income tax system, are not being removed from the mainframe as quickly as predicted. The ISD budget includes a present law increase of $1,433,660 in the 1999 biennium to upgrade the mainframe system and increase data storage capacity. It seems that there has been little or no effort to coordinate the budget requests of the agencies likely to be affected by the tax system modernization and consolidation proposals. The legislature may want to obtain more information about the effects that approval of the IT bond proposal and purchase of the requested computer systems would have on mainframe usage. If the IT bond proposal is approved, it may be possible to reduce present law budgets. Regardless of whether present law budgets are reduced, the legislature may want to consider providing the money for present law adjustments for mainframe system usage and upgrades in restricted appropriations that would grant budget authority only if the IT bond proposal is not approved.

3) Property Record Integration - This $4.05 million recommendation provides for a process of planning and implementing an integrated property record system. Currently, the DOR relies on four automated systems for the valuation and assessment of real and personal property. These four systems reside on three different computer platforms (midrange/mainframe/PC) using different database applications. It is becoming increasingly difficult to maintain, support, and fund these systems under their existing architectures which contain redundant data and lack of a planned technology approach. This lack of integration and inconsistent architectures also makes it extremely costly and difficult for the exchange of important property tax data between the state and county computer systems. The midrange computer will need to be replaced because the AS400 platform is no longer a state-supported product and it is operating at 100 percent capacity during critical periods associated with reappraisal. Over the past few months, employees have been forced to remain off the system for up to two weeks for processing to occur. A request for proposal (RFP) was issued that reviewed current technology trends and developments in property assessment systems. Preliminary cost estimates indicate it would be cost effective to integrate and migrate the property systems to a new system and platform. Debt service will be paid with general fund.

LFD Issue **- The Property Record Integration new proposal, along with the Income Tax Modernization and Revenue and Information Processing Center new proposals, are part of an alternative examined in the Andersen Consulting report commissioned by the DOR (mentioned above). The report's goal was to determine the feasibility of tax system integration. While the report concentrated on the costs and benefits of UI/DOR tax consolidation, it briefly discusses another alternative to develop a system that would "ultimately administer all tax types supported by the Department of Revenue". The Andersen report's analysis of this "complete integration alternative" must have included only the computer upgrades and other changes that would be necessary to begin integration of all tax systems, because it estimated that the costs of "preparing for the complete integration alternative" would be somewhere between $8.0 million and $15.0 million. Rather than just beginning the process of complete integration, the new proposals to modernize the income tax system, integrate property record keeping systems, and develop a revenue and information processing center, would complete the goal of developing a system to "administer all tax types supported by the Department of Revenue". The total amount requested for these three new proposals (projects #2-4) is $21.5 million, although the actual cost of the proposals is likely to be greater than that amount. For example, the DOR is requesting an extra $1.3 million in the 1999 biennium to implement the $2.5 million new proposal to consolidate the UI/DOR wage-based tax collection functions.**

4) Revenue and Information Processing Center - This $7.5 million proposal represents planning, development, and implementation of a state Revenue and Information Processing Center. The proposal is to have one central state entity process receipt of all payments to the state regardless of the source, to provide information about the payments, and to manage state-of-the-art information processing technology to be available to other state-local agencies and contributing private entities. Currently many state agencies receive payments from employers and citizens of Montana for such things as: licenses, fees, taxes, and payments collected from one person and passed through to someone else. Most steps in processing a payment made to a state agency are common, regardless of the reason for the payment. The center would provide centralized revenue collection, resulting in reductions in staff by elimination of duplicative cash-processing functions; more effective cash handling and cash management; efficiency improvements related to a streamlined process; space and equipment savings stemming from centralized use of equipment; and improved information quality from standardization of payee identifiers. The funding requested also would provide a planning effort to ensure that all DOR computer systems will be interactive and continue to coordinate with SBAS. Debt service will be about 45 percent general fund, with the balance shared among the state and federal special revenue users and beneficiaries of the new center.

LFD Issues **- The Revenue and Information Processing Center new proposal is the crux of the goal of developing a system to administer all taxes and offers the greatest potential of increasing efficiency by reducing duplication of record-keeping and processing. If the proposal is successful in its efforts to avoid duplication, it will lessen FTE requirements. DOR officials have indicated that they prefer to reduce personal services through attrition (which they estimate at about 6 percent per year) rather than through layoffs. Reduction of FTE through attrition is feasible only if FTE requirements fall at about the same rate as employee**

attrition.

The department's explanation of the proposal does not indicate the extent to which consolidation of revenue and information processing functions would affect other agencies; at the very least, all agencies should be given some idea of how to plan their future budgets and personnel requirements if the proposal is approved. Finally, it may be important to consider more than the efficiencies of system consolidation. Many state agencies collect various taxes and fees and taxpayers may prefer to deal with the agency with which they are most familiar. Farmers and ranchers who pay certain fees and taxes may prefer dealing with the Department of Agriculture rather than with the Department of Revenue; persons requiring occupational licenses may be more comfortable dealing with the Department of Commerce. Centralization has the potential to lower costs considerably, but the legislature may want to weigh other factors as well.

5) MT PRIME - There is $14 million for the Project to Reengineer the Information Management Environment (MT PRIME) that will result in the replacement of core financial, human resource, and procurement software systems in state government. Many of these systems, including the Statewide Accounting and Budgeting System (SBAS) and the Personnel, Payroll, and Position Control system (PPP) date back to the late 1970s. Technological advances and higher information expectations by agency managers, legislators, and users combine to make MT PRIME the appropriate approach to reengineering state core financial and human resource information management processes. MT PRIME will address three critical issues.

First, existing "old fashioned" technology, combined with agencies' requirements for better, faster, more accurate information, is creating a situation where agencies are pursuing management information "fixes" on their own without a statewide perspective or direction. These "fixes" result in numerous legislative requests for system enhancement projects. MT PRIME, by providing state-of-the-art technology and functionality, will reduce and/or eliminate the need for these agency-specific "fixes." The cost avoidance this represents is estimated to exceed $1 million annually, half of which is general fund.

Second, MT PRIME will integrate the state budget, finance, and human resource systems in a way which will reduce the current duplicity of data entry and the resulting inconsistency in management information. Revenue and expenditure projections and monitoring will become easier and more accurate. Agency information will become more readily accessible for planning and auditing purposes. And finally, less time will be spent trying to reconcile what appears to be conflicting information. (See Number 6 for integration of the budgeting component.)

Third, MT PRIME will address what are known as "Year 2000" problems in existing state systems. Year 2000 problems result when two digit date fields, deeply embedded in the state legacy programs, jeopardize the integrity and accuracy of management information and reports.

LFD Issues - There is a need to address the ability of the state's legacy systems to continue to function , as well as meet the future requirements of state government operations. The 1995 legislature recognized this need and passed SJR 23, which called for an interim committee to study state government management systems. One of the directives in SJR 23 included reviewing "opportunities for and advantages of installing an integrated system of asset management tools." The MT PRIME proposal evolved from the work done by the SJR 23 Committee. The issues for consideration regarding the MT PRIME proposal are not necessarily related to the validity of whether or not the project should go forward. What the legislature may wish to consider are questions regarding funding for and implementation of the MT PRIME proposal itself. As the Governor's recommendation for MT PRIME is presented during the 1997 session, some of the questions the legislature may wish to ask include:

> Does state government have the appropriate infrastructure to accommodate state-of-the-art technology?

If this proposal is adopted, should various agency budgets be reduced for "system enhancement projects"?

If this proposal is denied, should various state budgets be increased to continue the agency-specific "fixes"?

If the core legacy systems are replaced with "off-the-shelf" software, will state government be more vulnerable to expensive software upgrades similar to individual workstation software?

According to Table 1, the cost of MT PRIME is estimated to be $16.0 million (not $14.0 million as mentioned above). If funded through a 10-year bond issue, total principal and interest costs for this project will exceed $20.0 million. If cost avoidance is approximately $1.0 million per year, it would take 20 years before any savings would be realized.

6) MIBS Phases 3 - 5 - There is $0.5 million recommended for Phases 3, 4, and 5 of the Montana Integrated Budget System (MIBS). During the 1997 biennium, the Office of Budget and Program Planning and the Legislative Fiscal Division used $155,000 appropriated by the last legislature, plus $38,000 contributed by other state agencies, to contract with SCB Computer Technology, Inc. for Phase 1 and 2 comprised of design and budget update modules. Phase 3 will automate the appropriation control and implementation process which updates all of the recommended agency budgets for legislative action and ties all appropriations to HB 2 and all other "cats and dogs" appropriations bills. Phase 4 will automate all agency requests for changes to operating budgets and appropriation and revenue estimate maintenance functions that currently are processed manually on B212/214 forms and then recorded on the SBAS. Phase 5 will integrate the MIBS with the SBAS and the PPP Control System or their replacement systems (see number 5 - MT PRIME), and with the Executive Planning Process (EPP) to automate the initial steps in the budget development process. General fund will be used to retire the debt.

LFD Issues **- Phases 1 and 2 of MIBS involved the creation of an automated system for development, submission and analysis of the Governor's Budget. Ultimately, this system will be used to generate the general appropriations act (HB 2) during the 1997 session and beyond. Phases 3 through 5 involve the development of processes to be used primarily for maintenance of agency budgets as approved by the legislature. Some of the issues the legislature may wish to address in regard to the MIBS proposal include:**

Can this project be completed at a lower cost since the main database for the system was put in place in Phase 1 for less than $200,000?

Justification for this proposal focuses on appropriation control and operating budget maintenance functions. If the MT PRIME proposal is adopted, it may be more appropriate to include this functionality within the scope of the MT PRIME project.

Like SBAS and P/P/P, MIBS is a centralized system. Why should general fund be used to totally retire the debt for this project? Should other funds be utilized in addition to general fund?

Although the estimated cost of MIBS Phases 3 through 5 is $0.5 million, it is unclear what, if any, significant cost savings or cost avoidance would result if this project is approved.

7) Cadastral Mapping - There is $4 million recommended to create a digital map of all property parcels in Montana. This will interface with other data to form a large-scale cadastral database that will be maintained for all Montanans to access, now and in the future. Geographic Information System (GIS) technology allows quick and accurate analysis of land information. Visual interpretations derived from mapped data are used to evaluate options, guide decision making, monitor and evaluate program results, and communicate program information to customers and the public. Land ownership is important

information for many of the GIS applications by federal, state, and local government agencies and by private companies. Information about land ownership is essential for city/county planning, transportation, utility corridors, emergency services, equitable property taxation, and natural resource management. For these reasons, the debt will be retired with approximately $2 million of private funds from U.S. West and the Montana Power Company, $1 million from the federal Bureau of Land Management (BLM), and the balance in state special revenue from state and local government agencies plus a small amount of general fund.

Some of the benefits of the State of Montana Cadastral Mapping Project include:

- One well-coordinated project that meets the needs of all private, state, local and federal partners.
- Cost savings by eliminating duplication of efforts while gathering and maintaining land record information.
- Improved accessability to land record data saves time and money.
- Standard database design for all digital cadastral products across Montana.
- Training programs to help local governments.
- Private/public partnerships which may lead to other cooperative data collection efforts.

LFD Issues - **ISD has been designated to take the lead in coordinating the state's GIS program. Other agencies, most notably DOR, are including requests for GIS systems in their budgets. The legislature may want to determine to what extent agencies are coordinating their efforts to develop a GIS system. Furthermore, the executive mentions a funding commitment of $3.0 million from non-state sources. Apparently, there is a commitment from private-sector participants to raise $2.0 million for this project, although the total availability of those funds is not yet certain. In addition, the $1.0 million commitment from the federal government, including the BLM, is not necessarily a firm amount and according to the executive, the $1.0 million includes some in-kind services. The legislature may wish to consider the validity of bonding for this $1.0 million, as debt service payments cannot be made with in-kind services. Moreover, if any of the $3.0 million from other sources is to be submitted in lump sum amounts rather than over a 10-year period, it may not be appropriate to include this amount in the total amount bonded.**

8) Benefits Package - There is $3.6 million recommended for the Department of Labor and Industry (DOLI) to rewrite and modernize the current unemployment insurance (UI) benefits payment system which will become dysfunctional due to year 2000 problems in January, 1999. The UI benefits which will be due and payable in 1999 cannot be made with the present system. The replacement system must be bonded as recommended, or funded with a long-term loan, because the UI revenue cash flow is insufficient to pay for this project in the operating budget. Debt service will be paid using the federal UI grant.

LFD Comment - **These systems process all unemployment insurance claims for the state, including initial claims, weekly claims, eligibility determinations, employer charging, and benefit payment control functions. The debt service payments on the bonds are proposed to be paid with federal funds. The sources of the federal funds are the UI Administrative grant for repayment of the principal, and the UI Penalty and Interest funds for interest payments.**

The current UI Benefits Automated ReWrite (BeAR) system was brought on-line in 1985, using technology from the late 1970s. Agency officials state that the systems need significant reprogramming to address their age, increased maintenance requirements, potential capacity issues, increases in system security, audit recommendations, fulfillment of federal and state legislative changes, and expansion of the functionality of

the system, which would reduce programming backlogs, in addition to the year 2000 issue. A contracted study analyzed the status of the BeAR system and recommended replacement and redesign. The program also estimates that should the entire redesign not occur, the UI division would need $343,000 for the 1999 biennium to address the problem of processing benefits beyond the year 1999.

9) MUS Technology Initiative - There is $7 million recommended for the Montana University System (MUS) technology initiative which will focus on instructional computing, campus infrastructure, and administrative support systems. Investments in instructional computing will be used to develop mediated classrooms and multimedia instructional labs. These classrooms and labs will provide a needed instructional complement that allows access to information from a variety of formats, media, and technology. Additional investments will be made in library technology and automation.

It is critical that the MUS campuses develop and maintain appropriate infrastructure to meet the demands for digital communication, access to library sources, and other needs relative to distributed learning. Investments will be made in campus infrastructure to accommodate the increasing demands for new technologies. In addition, multi-campus integrated information management systems will be updated or developed on the MUS campuses. Such systems will increase access to, and improve the quality of, information for students, staff, administrators, policy makers, and legislators. These systems will improve planning and management and will enhance state and federal reporting and accountability. Debt service will be paid 50 percent with general fund and 50 percent with MUS-generated funds.

LFD Comment **- This project includes $3.5 million for each branch of the university system for personal computers, systems software, and networking. The projects vary from a system-wide administrative information system to instructional and academic computing. The bond payments would be funded by 50 percent general fund and 50 percent other funds. Other funds could include tuition, student fees, and intra-campus charges for various services.**

Funding

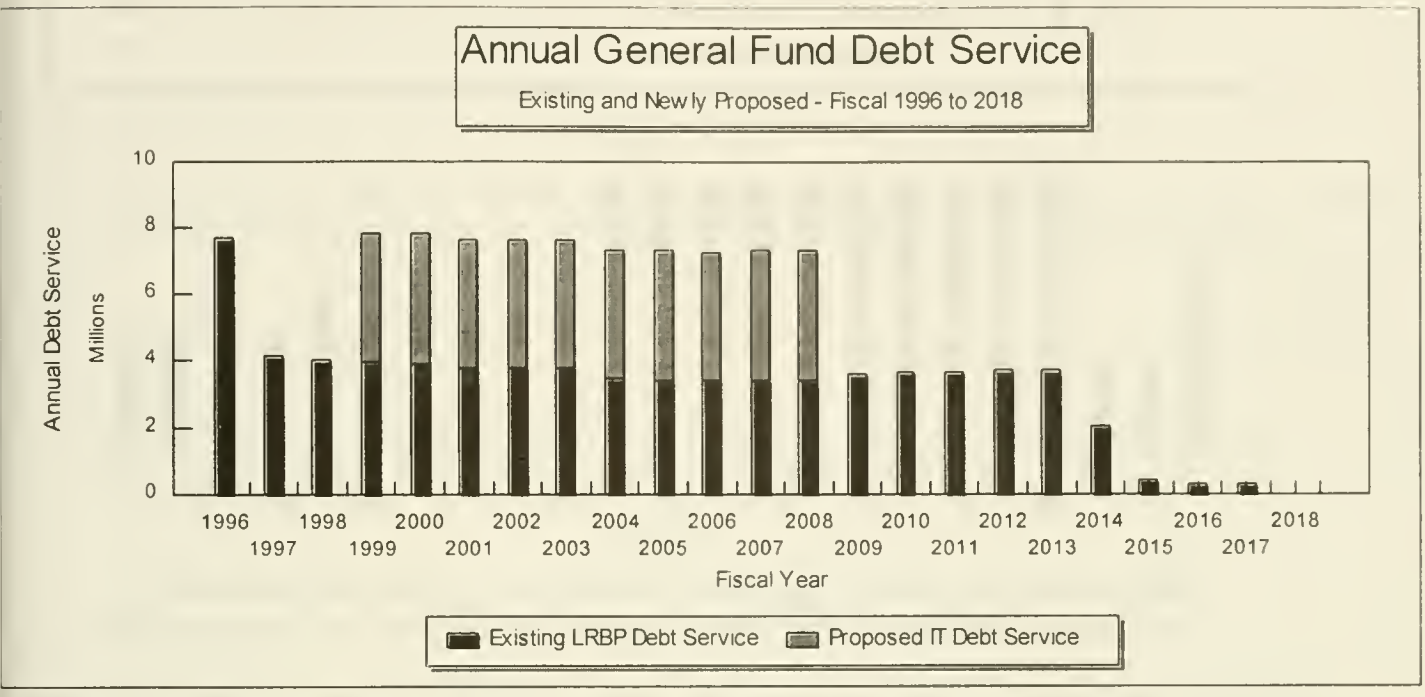
LFD Issues **- The Governor's Budget includes a cost to the general fund of $1.5 million per fiscal year or a total of $3.0 million during the 1999 biennium for debt service costs that would occur if the Governor's IT bonded program is approved by the 1997 legislature. The total cost of the proposal is $55.1 million; however only $30.5 million is to be paid for by the general fund. There is no constitutional or statutory limit on the amount of debt the state can issue. However, bond issues represent long-term commitment for annual debt service obligations. Consequently, when considering the long-term impact of issuing an additional $55.1 million in G.O. debt, a number of factors warrant legislative consideration.**

1) Annualized Cost - The projected debt service cost of $1.5 million per year does not reflect the annual cost for the issuance of the entire $30.5 million general fund amount. As mentioned in the narrative, these bonds will not all be issued at once, but perhaps in three different series. The true annual debt service cost to the general fund, once the entire amount is issued, would result in $3.9 million per year or $7.8 million per biennium. These bonds are to be issued for a 10-year term. At an interest rate of 4.6 percent, this would result in a total principal and interest cost of nearly $39.0 million (a shorter-term bond results in a lower interest rate).

2) General Fund Impact - Debt service payments to be made from the general fund statutory appropriation will be in addition to payments currently made for outstanding G.O. bonds issued for the Long-Range Building Program (LRBP). Chart 1 shows what the annual debt service costs to the general fund are for outstanding LRBP debt and what the additional debt service payments would be if the Governor's $30.5 million in IT bonding were approved. Since it is uncertain at this time when the IT bonds would be issued and what the exact debt service payments would be, Chart 1 depicts an

even stream of payments beginning in fiscal 1999.

Chart 1

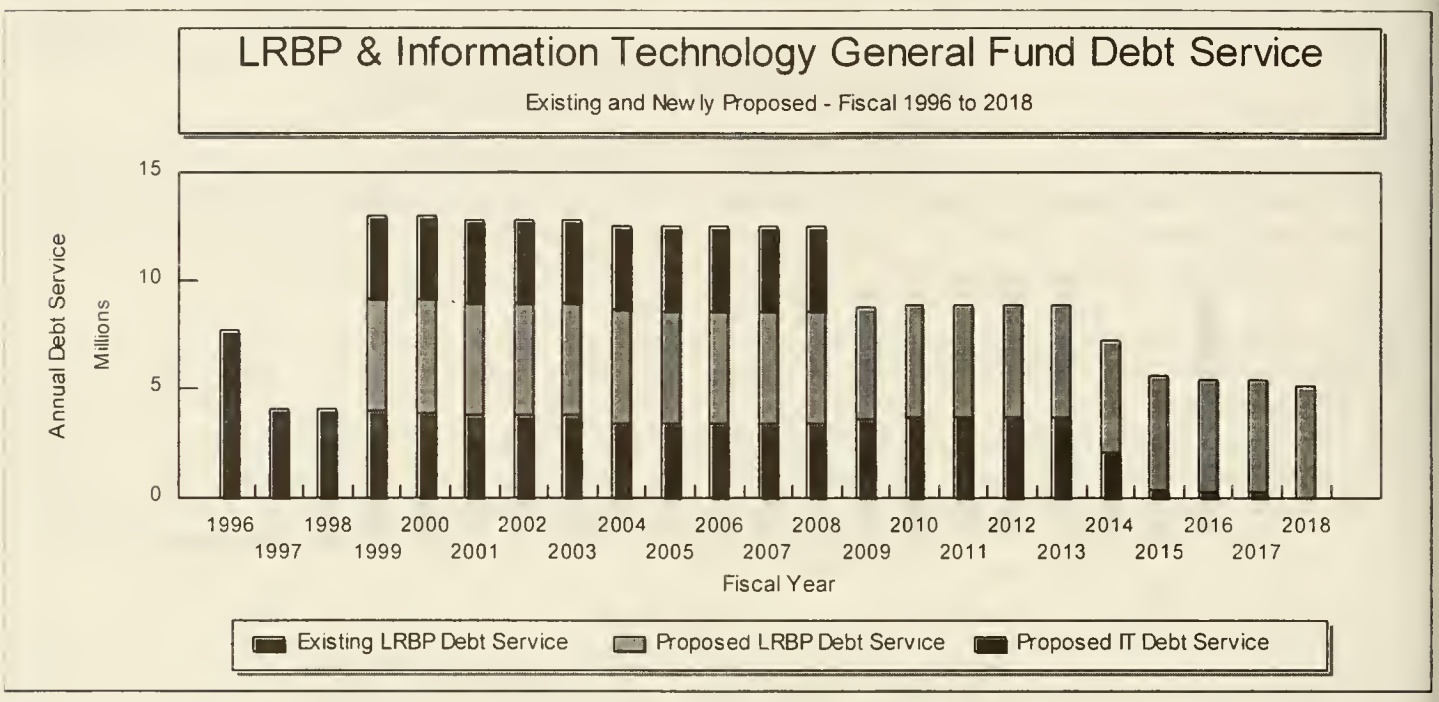


3) <u>LRBP Proposal</u> - Although the Governor's IT bonding proposal is not directly related to the Governor's new bonding proposal for LRBP, both would require funding from the issuance of G.O. bonds that would be paid for with general fund monies.

The LRBP proposal includes $61.8 million in bonding for new projects. The Governor's Budget reflects additional general fund debt service costs for LRBP of $2.25 million per year. The projected debt service cost of $2.25 million per year does not reflect the annual cost for the issuance of the entire $61.8 million amount. The initial phase for building projects involves hiring of an architect who then designs the building/project. G.O. bonds for LRBP projects are not issued until construction is ready to begin. Consequently, if the Governor's bonded program is approved, the entire $61.8 million will not be bonded immediately. Rather, two or three bond issues will occur over the next few years, as funding becomes necessary. The true annual debt service cost, once the entire $61.8 million is issued, would be $5.2 million per year or $10.4 million per biennium (based on a 20-year term at 5.5 percent interest).

When the Governor's LRBP bonding proposal for $61.8 million is combined with the request for $30.5 million in bonding for IT projects, the total impact on the general fund would be as much as $9.1 million per fiscal year or $18.2 million per biennium, over a 10-year period, above existing general fund debt service obligations. Chart 2 shows the impact of these two proposals.

Chart 2



4) Full Faith and Credit - Finally, although $24.6 million of the $55.1 million in debt is to be funded with non-general fund sources, the bonds will be issued as G.O. bonds. Therefore, they will be secured by the "full faith and credit and taxing powers of the state." Consequently, the debt service payments will be guaranteed by the general fund statutory appropriation. If for some reason any of the other funding sources become unavailable or insufficient, the general fund will be statutorily and constitutionally required to fund the entire debt service obligation. If this were to occur, the total increase to the general fund would not be $3.9 million per year for IT bonding, but as much as $7.0 million per year. When combined with the executive LRBP bonding proposal, the ultimate cost to the general fund would be an additional $12.2 million annually.

Global Perspective

LFD Issues - The Governor's request for information technology involves a major investment of state government funding and resources. Undoubtedly, there is the potential for cost savings and increased efficiency that could be realized if these projects were approved and properly implemented. Yet the information submitted by the executive is brief and provides minimal detail. As these proposals proceed through the legislative process, many questions will arise. When considering this proposal both globally and in regard to individual projects, questions the legislature may wish to ask include:

What overall impact will this proposal have on the operations of ISD? What will their role be in regard to centralized computer services functions? Will this proposal move state government toward a more unified approach to information technology, especially in regard to procurement of software, hardware, and systems development? If so, how? If not, why not?

Should IT software and hardware funding be addressed from a state perspective instead of by individual agency needs?

What impact will this proposal have on state agency operations and budgets beyond the 1999 biennium? There is mention of the potential for a significant reduction in FTE. Where will those reductions occur and what will the ultimate cost-savings to the state be?

What components of this proposal involve funding for operations costs? Is there the potential that bonding will be used to pay for operating and personal services costs that will ultimately require on-going funding through agency budgets?

What level of coordination is there among agencies in regard to the IT bonded proposal and those requests for funding in agency budgets that will be considered by the 1997 legislature?

PROPRIETARY FUNDS — RATE SETTING and STATE FUND

PROPRIETARY RATES - INTRODUCTION

Proprietary Rate Setting and State Fund Section

This section includes two main parts: 1) an explanation and analysis of most proprietary funded functions of state government; and 2) the State Mutual Compensation Insurance Fund (State Fund).

Proprietary Funds

Proprietary funds (internal service funds and enterprise funds) are those funds collected in return for the provision of a service or product, i.e. the provision of computer services to agencies of state government, or services for which a fee is charged, such as legal services. The 1995 legislature passed HB 576, which, among other things, eliminates the requirement that proprietary funds be appropriated.

In previous biennia, funding related to certain services was double appropriated in HB 2: once in the programs paying the fees and charges, and again in the program providing the service in order to allow expenditure of funds collected. Appropriations to allow programs to pay fees and charges are contained in HB 2. Statute no longer requires an appropriation for agencies to spend the funds collected for the provision of the service.

Statute requires that the legislature establish fees and charges for all proprietary funded programs, and prevents those programs from increasing those fees and charges during the biennium. Statute also requires the Office of Budget and Program Planning (OBPP) to include in the Executive Budget an analysis of the rates, fund balances, and fund equity. This section contains a separate analysis and discussion of the various rates to meet that requirement and to provide the legislature with information it needs in order to establish these rates.

For each rate, OBPP has included the following:

- a table showing the beginning fund equity, and projected ending fund equity for each account, along with the actual 1997 biennium and projected 1999 biennium rates;

- an explanation of the rates and the retained earnings or ending fund equity, as well as other information concerning changes in operations deemed pertinent.

The LFD analyst has inserted comments and/or issues where appropriate.

Due to the statutory requirements of legislative rate establishment and adherence by the agencies to those rates, the legislature must make its intent on those rates known. Consequently, a new section in HB 2, a joint resolution, or another vehicle containing the legislature's established rates is necessary.

State Fund

The second part of this section is a discussion of the State Fund. House Bill 13 passed by the 1993 legislature provided for the statutory appropriation of all funds deposited in the State Fund beginning July 1, 1993. While this legislation authorized the State Fund's board of directors (Board) to establish the State Fund budget within statutorily identified parameters, it also required the Board to submit its budget and annual financial report to the Governor and the legislature. Because the State Fund has a statutory appropriation, it is not budgeted in HB 2.

PROPRIETARY RATES - INTRODUCTION

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ACCOUNTING ENTITY:	Number 02042	Name Audit & Examination	AGENCY:	egislative Branch	PROGRAM.	Audit & Examination

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$127,053	$42,564	$0	$0	$127,053	$42,564
Increases						
Revenue: Audit Fees	$1,276,211	$1,226,163	$0	$0	$1,276,211	$1,226,163
Revenue: Nonbudgeted Audit Fees	15,000	15,000	0	0	15,000	15,000
Decreases						
Personal Services Expenses	($1,239,900)	($1,277,097)	$0	$0	($1,239,900)	($1,277,097)
Operating Expenses	(135,800)	(139,874)	0	0	(135,800)	(139,874)
Ending Total Fund Equity	$42,564	($133,244)	$0	$0	$42,564	($133,244)

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The Division attempts to use the biennial audit appropriations to cover the costs of the biennial Financial-Compliance audits. The Fund Equity balance at the beginning of each fiscal year is used to cover the expenses incurred in the first two months of the fiscal year prior to the collection of any revenue from the audit fees.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Audit Fee-F-C Audits	$37.51	$35.48	$40.00	$40.00	
Audit Fee - Performance/EDP Audit	36.83	37.04	40.00	40.00	

Rate Explanation

Legislative Branch - Audit and Examination

Audit and Examination - The Audit and Examination Division in the Legislative Branch has the statutory authority to examine, at any time, all the books, accounts, and records, confidential or otherwise, of a state agency. The two primary duties are to conduct audits of state agencies, programs, and operations; and, to assist the legislature, its committees, and its members by gathering and analyzing information when requested. The division fee/charge for financial compliance audits for fiscal 1996 was $37.51 per hour and increases to $40.00 each year of the 1999 biennium. Performance audit and electronic data processing (EDP) audit charges for fiscal 1996 were $36.83 and also increase to $40.00 each year of the 1999 biennium.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to decrease during the biennium.

Mission Statement

To maintain a central filing point for business registrations, uniform commercial code financing statements, including agricultural products in accordance with the Federal Food Security Act of 1985, notary public registrations as well as provide efficient and cost effective records management services, including the official records of the executive branch and the acts of the legislature. The office serves as the central filing and publication source for the Administrative Rules of Montana and the Montana Administrative Register. The Secretary of State serves as Montana's chief election official and is responsible for the application, operation, and interpretation of elections laws.

Agency Description

The Office of the Secretary of State is established by Article VI, Section 1 of the Montana Constitution, and its duties are set forth in sections 2-4-311 and 312, 2-6-203, and 2-15-401, MCA. The office: 1) files, maintains, stores, and distributes corporate documents, agricultural lien information, official records of the executive branch, and acts of the legislature; 2) publishes the Administrative Rules of Montana and the Montana Administrative Register; and 3) administers the state agency records management function, including operation of a central microfilm unit and the state records center. In addition, due to the Secretary of State's role as chief election officer of the state, the office is also responsible for the interpretation, application, and operation of election laws, except those pertaining to campaign finance.

Program Description

The Office of the Secretary of State is established by Article VI, Section 1 of the Montana Constitution, and its duties are set forth in sections 2-4-311 and 312, 2-6-203, and 2-15-401, MCA. The office: 1) files, maintains, stores, and distributes corporate documents, agricultural lien information, official records of the executive branch, and acts of the legislature; 2) publishes the Administrative Rules of Montana and the Montana Administrative Register; and 3) administers the state agency records management function, including operation of a central microfilm unit and the state records center. In addition, due to the Secretary of State's role as chief election officer of the state, the office is also responsible for the interpretation, application, and operation of election laws, except those pertaining to campaign finance.

Funding

The Office of the Secretary of State is funded entirely with proprietary funds. Proprietary funds are derived from fees charged to customers for corporate filings and other related services (which comprised over 75 percent of total funding in fiscal 1996) and to state agencies for records management services. In the past, general fund supported the administration of election laws. State statute (2-6-103, MCA) requires that the Secretary of State deposit into the general fund within 120 days of the end of the fiscal year, any amount in the proprietary fund that is in excess of the current year's appropriation. (Please see the agency issue section for a fuller discussion of funding for this office.)

Performance-Based Budget

The Office of the Secretary of State is one of fourteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the office of the secretary of state is contingent upon funds being used to attempt to achieve program performance targets as outlined in the Executive Budget for the 1999 biennium. The department

shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

The proposed program goals and associated performance targets for each year of the 1999 biennium are as follows:

Goal 1: Provide open access to the election process.

Performance Measure/Target: Increase voter registration.

	Target
Maintain the percentage of eligible, but non-registered Montanans purge procedure.)	87.5 percent after each presidential election (Subject to revision if the Legislature brings the State of Montana into compliance with the current National Voter Registration Act of 1993 and amends the
Train election administrators	Have 50 of 56 counties attend biennial workshop
Establish a mechanism to monitor voter registration duplication at the state level	Have a plan set by January 1, 1998
Have signed legislation of the 1997 Legislature available for the public and state agencies.	70 percent in either electronic or hard copy within three days of receipt by the Secretary of State
Have at least the basic information, name, office, and party, for all state, district, and legislative candidate filings	On the Internet within three days of filing
Have options for increasing voter turnout including alternatives to polling place voting, such as vote-by-mail, vote-by-telephone, and making use of the opportunities presented by the Internet	Report to the 1999 Legislature

LFD Issue - Only that portion of the Office of Secretary of State that performs the election function is participating in performance-based budgeting. The Secretary of State is the chief election officer of the state and the office is responsible for the application, operation and interpretation of election laws. The election function was supported with 4.05 FTE and $187,098 in fiscal 1996. For the 1999 biennium, the number of FTEs remains the same, but the 1998 budget request is for $334,125 and the 1999 budget request is for $396,961, primarily for printing and systems development. These amounts are increases over the present law base of 78.6 percent and 111 percent. The executive's narrative for the performance-based budget does not explain the relationship between the budget request and the performance measures. Consequently, the legislature does not have enough information about how changing the rates and fees from those requested would affect program performance.

ACCOUNTING ENTITY:	Number 06053	Name SOS Enterprise Fund	AGENCY:	Secty of State	PROGRAM:	Bus & Gov't Serv

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$451,892	$310,271	$0	$0	$451,892	$310,271
Increases						
Domestic Corporations	$600,000	$600,000	$0	$0	$600,000	$600,000
Foreign Corporations	250,000	250,000	0	0	250,000	250,000
Trademarks	10,000	10,000	0	0	10,000	10,000
Administrative Rules	65,000	65,000	0	0	65,000	65,000
Notary Public	110,000	110,000	0	0	110,000	110,000
Certificates and Copies	45,000	45,000	0	0	45,000	45,000
Assumed Business Names	125,000	125,000	0	0	125,000	125,000
UCC	250,000	250,000	0	0	250,000	250,000
Priority Handling	125,000	125,000	0	0	125,000	125,000
Farm Bill	20,000	20,000	0	0	20,000	20,000
Public Access	40,000	40,000	0	0	40,000	40,000
Other	90,750	55,750	0	0	90,750	55,750
Decreases						
Personal Services Expenses	($968,319)	($971,225)	$0	$0	($968,319)	($971,225)
Operating Expenses	(843,673)	(935,739)	0	0	(843,673)	(935,739)
Depreciation/Amortization	(55,189)	(35,000)	0	0	(55,189)	(35,000)
Other Decreases (Specify)						
Change in Comp. Absence	($5,190)	($5,450)	$0	$0	($5,190)	($5,450)
Ending Total Fund Equity	$310,271	$58,607	$0	$0	$310,271	$58,607

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

This proprietary fund represents approximately 75 percent of the operations of the Secretary of States office. The decrease in fund balance reflects the use of resources to comply with information system needs of customers and the agency.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Domestic Corporations	$629,062	$600,000	$600,000	$600,000	35-1-1206
Foreign Corporations	263,893	250,000	250,000	2,580,000	35-1-1206
Trademarls	10,096	10,000	10,000	10,000	30-13-320
Administrative Rules	68,039	65,000	65,000	65,000	2-4-313
Notary Public	114,061	110,000	110,000	110,000	1-5-408
Certificates and Copies	39,130	45,000	45,000	45,000	35-1-1206
Assumed Business Names	127,754	125,000	125,000	125,000	30-13-217
UCC	260,926	250,000	250,000	250,000	30-9-403
Priority Handling	133,821	125,000	125,000	125,000	35-1-1206
Farm Bill	20,005	20,000	20,000	20,000	30-9-403
Public Access	37,250	40,000	40,000	40,000	30-9-403
Other	84,804	90,750	90,750	55,750	35-1-1206

Rate Explanation

Secretary of States Office - Business and Government Services

Revenue - Proprietary funds that support the business and government services function are derived from fees charged to customers for corporate filings, registration of assumed business names and trademarks, certification of limited partnerships, uniform commercial code activities, and miscellaneous services such as copying and priority handling. There are a variety of fee amounts charged. Some fees are set in statute while others are established by the Secretary of State according to an

annual review of the actual cost of providing the service.

Operating Expenses

Personal Services - The projected cost of personal services is $910,758 in fiscal 1997, $968,319 in fiscal 1998, and $971,225 in fiscal 1999.

The Secretary of State began a major restructuring of work flows, employee responsibility, and employee classification during the 1997 biennium. The estimates for increased personal service costs that will be attributable to the reclassifications during fiscal 1998 is $47,967 and for fiscal 1999, $95,654. It is assumed that cost reductions will need to be made in operating expenses in order to provide the necessary resources for personal services. In response to Legislative Audit recommendations concerning utilization of fund balances, the budget as submitted represents the plan to provide improved services as requested by the customers as well as complying with overall revenues versus expenditures.

Operations - The projected cost of operating is $1,035,556 in fiscal 1997, $843,673 in fiscal 1998, and $935,739 in fiscal 1999.

Rates - There is no projected increase or decrease in the rates charged to customers for corporate filings, registration of assumed business names and trademarks, certification of limited partnerships, uniform commercial code activities, and miscellaneous services such as copying at the present time.

ACCOUNTING ENTITY:	Number 06556	Name SOS Internal Service	AGENCY:	Secretary of State	PROGRAM:	Bus & Gov't Serv

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$238,955	$197,583	$0	$0	$238,955	$197,583
Increases						
MAR Filing Fees	$75,000	$75,000			$75,000	$75,000
Administrative Rules	50,000	50,000			50,000	50,000
Records Mgmt. -Storage	150,000	150,000			150,000	150,000
Records Mgmt. -Microfilm	140,000	140,000			140,000	140,000
Records Mgmt. -Shredding	25,000	25,000			25,000	25,000
Records Mgmt. -Vault	20,000	20,000			20,000	20,000
Records Mgmt. -Boxes	25,000	25,000			25,000	25,000
Other	0	0			0	0
Decreases						
Personal Services Expenses	($294,857)	($295,908)			($294,857)	($295,908)
Operating Expenses	(211,897)	(210,180)			(211,897)	(210,180)
Depreciation/Amortization	(17,956)	(35,000)			(17,956)	(35,000)
					0	0
Other Decreases (Specify)						
Change in Comp. Absence	($1,662)	($1,745)			($1,662)	($1,745)
Other	0	0	0	0	0	0
Ending Total Fund Equity	$197,583	$139,750	$0	$0	$197,583	$139,750

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

This proprietary fund represents approximately 25% of the operations of the Secretary of States office.
The decrease in fund balance reflects the use of resources to comply with information system needs of customers and the agency.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
MAR Filing Fees	$74,987	$75,000	$75,000	$75,000	35-12-107
Administrative Rules	46,996	50,000	50,000	50,000	35-12-107
Records Mgmt. -Storage	151,077	150,000	150,000	150,000	7-7-4629
Records Mgmt. -Microfilm	139,203	140,000	140,000	140,000	7-7-4629
Records Mgmt. -Shredding	29,554	25,000	25,000	25,000	7-7-4629
Records Mgmt. -Vault	22,883	20,000	20,000	20,000	7-7-4629
Records Mgmt. -Boxes	23,306	25,000	25,000	25,000	7-7-4629
Other	0	0	0	0	7-7-4629

Rate Explanation

Secretary of States Office - Business and Government Services

Revenue -The proprietary funds that support the records management function are derived from fees charged to other state agencies for the services performed. There are a variety of charges which are established by the Secretary of State according to an annual review of the cost of microfilming and other market factors. The proprietary funds that support the administrative rules function are derived from charges to state agencies and the public for publication and distribution of the Administrative Rules of Montana (ARM) and the Montana Administrative Register (MAR). Fees are set by the Secretary of State in consultation with the Administrative Code Committee.

Operating Expenses

Personal Services - The projected cost of personal services is $281,590 in fiscal 1997, $294,857 in fiscal 1998, and $295,908 in fiscal 1999.

Operations - The projected cost of operating is $190,740 in fiscal 1997, $211,897 in fiscal 1998, and $210,180 in fiscal 1999.

Rates - There is no projected increase or decrease in the rates charged to state agencies for records storage or microfilming.

The rates for MAR yearly subscriptions for the 1999 biennium are $300 and for ARM subscriptions $250. The ARM yearly charge per title is $50.

LFD Issue **- Please see the "Agency Issue" section for a further discussion.**

Executive Present Law

The present law adjustments table is not presented for the Secretary of State, a proprietary fund account. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including propriety fund accounts, legislative decisions on these items will be applied globally to all agencies.

HB 576 Contracts with the Private Sector - The office has installed state standard software in order to more fully become a part of the state enterprise network system as well as facilitating better efficiencies and comparability in coordinating activities with other state agencies. In order to ensure the effective and efficient use of software, employees need to receive training and instruction. The request is for a net increase of $9,243 each year of the biennium for classroom instruction. The use of temporary services is projected to decrease to two-thirds of the 1996 levels. The amount of the net decrease is $4,152.

HB 576 System Development - During the last legislative session, the office received approval to redevelop the office information systems. During fiscal 1996 an analysis of workflow processes was conducted and changes were implemented to improve customer services and make improvements in the area of cash receipt management. The requested amounts for fiscal 1998 of $208,250 and $265,250 in fiscal 1999 are based upon projected system development costs initiated in fiscal 1996 and continuing through fiscal 1997. A request for proposal (RFP) was created to allow for improved compliance with legislative audit recommendations regarding making improvement in the receipting and depositing processes of annual reports. Cost projections for the RFP process and related internal information systems are $114,950 per year.

LFD Comment - Please refer to the Agency Issue for this program for a further discussion of the funding of the above present law adjustments.

HB 576 Publication Expense - Proposed amendments are published in full twice each month for two months in each of the 56 counties prior to a general election. Also an estimated 100 word legal advertisement in each county is published. The estimated cost in fiscal 1999 is $57,038 for a net increase of $55,000 above the 1996 base.

Agency Issue

Several parts of state law relating to the finances of the Office of the Secretary of State are unclear or in conflict. State statutes require the office to charge fees commensurate with costs, yet other state statutes set the dollar amounts of the fees the office must charge, regardless of costs. Statutes require that the office transfer funds in excess of its current-year appropriation into the general fund, but since the passage of HB 576 by the 1995 legislature, the office no longer receives a legislative appropriation.

As required by 2-6-103, MCA, Secretary of State must transfer to the general fund any revenue collected during the prior fiscal year that exceeds the amount of the current year's appropriation. Because of the requirements of HB 576, the legislature no longer appropriates proprietary funds to the Secretary of State. There is no longer any clear way to determine the amount of excess funds the Secretary of State should transfer to the general fund.

According to the Legislative Audit Division financial-compliance audit for the two fiscal years ended June 30, 1996, Secretary of State office management said they "believe the legislature intended for the office to adopt management efficiencies and benefits inherent in long-term planning." Office management also said a long-term planning approach to enterprise funds would allows to accumulate resources for more than one year and to spend accumulated resources. According to its 1999 biennium budget, the office will not transfer any revenues to the general fund.

The office is acting on its belief that it has the authority to spend its proprietary funds on long-term projects. The Executive Budget includes present law adjustments of $798,823 for the 1999 biennium, an amount that approximately equals the annual amounts the office transferred to the general fund in past biennia. The office characterizes the present law adjustments as primarily one-time-only system development costs. Despite its belief that it has the authority to accumulate proprietary funds and spend them on long-term projects, the office will seek legislation to make its spending authority clear. HB 576 has created an ambiguity as to whether the Secretary of State has to deposit its excess funds to the general fund, and the legislature will need to adjust state law to again require the office to deposit funds to the general fund or adopt a new law that will allow the office to use its proprietary funds as it sees fit.

Other aspects of state statute must also be clarified. Current law requires the office to charge fees commensurate with costs, yet 2-6-103, MCA and 35-1-1207, MCA specify the dollar amounts the office must charge for filing and copying fees related to public records and for corporate license fees. Had these dollar amounts been commensurate with costs, there would never have been excess revenue to transfer to the general fund. If the legislature wants the Secretary of State to charge fees commensurate with costs, it must consider changing or eliminating the state statutes that specify dollar amounts for fees.

ACCOUNTING ENTITY	Number 06500	Name Agency Legal Services	AGENCY	Justice	PROGRAM	Agency Legal Services

Description	FY 94 Retained Earnings Unreserved	FY 95 Retained Earnings Unreserved	FY 96 Retained Earnings Unreserved	FY 97 Retained Earnings Unreserved	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	Comparative Projected FY 97
Beginning Total Fund Equity	$79,465	$8,128	($26,312)	($90,520)	($122,934)	($33,871)	($90,520)
Increases							
Services Rendered	$525,763	$592,305	$607,892	$720,205	$869,976	$869,976	$720,205
Decreases							
Personal Services/Operations	($572,548)	($606,515)	($658,301)	($737,619)	($765,913)	($782,396)	($737,619)
Non-Budgeted Expenses	(24,552)	(20,230)	(13,799)	(15,000)	(15,000)	(15,000)	(15,000)
Ending Total Fund Equity	$8,128	($26,312)	($90,520)	($122,934)	($33,871)	$38,709	($122,934)

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

Agency Legal Services (ALS) was created to provide cost-effective legal services to state agencies. The current fee structure charges $53 per hour for attorney time and $30 per hour for investigative time. This fee structure has been in place since 1991. A fee increase is desparately needed as can be seen from the above rate analysis Over the past six years, inflation on on-going expenditures has far surpassed revenue generated by the static rate structure. Increasing rates by $9 per hour will make this account solvent by the end of FY99 A 60 day working capital reserve will not be reached until 2001

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Legal and Investigative Services	$607,892	$720,205	$869,976	$869,976	House Bill 2
	Attorney	Invest/Para			
Current hourly rate	$53	$30			
Proposed hourly rate	$62	$39			

Rate Explanation

Department of Justice - Agency Legal Services

Agency Legal Services Bureau (ALSB) is the state in-house law firm. It provides services to other agencies of state government, charging a fee to the client agency for the services provided. ALSB supplants outside counsel in meeting the legal services needs of agencies that either lack legal staff or whose legal staffs are unable to handle a matter due to workload, conflict of interest, nature of the work, or other reasons. ALSB current hourly charges are $53 per hour for attorney time and $30 per hour for investigator/paralegal time. This fee structure has been in place since fiscal 1991. The Executive Budget would increase the fees to $62 per hour for attorney time and $39 per hour for investigator/paralegal time.

ALSB is a proprietary fund function. It pays for itself with the funds it raises through the fees charged to its state agency clients. While the ALSB fee rates have not increased, virtually every overhead item in its budget has increased in cost during the past five years.

The rates charged by the outside counsel firms with whom ALSB competes have increased significantly in the past seven years. The Risk Management and Tort Defense Division (RMTDD) of the Department of Administration is ALSB's largest client, and is also the largest consumer of outside counsel services in state government. The hourly rates RMTDD pays for tort defense work done by outside counsel now frequently exceed $100 per hour. Even with the requested increase, ALSB will still be charging rates approximately 40 percent below the rates charged by many of the outside legal firms with which the state does business.

LFD Comment **- As shown in the Table, the Legal Services Bureau has been operating at a deficit since fiscal 1994. In order to continue to operate this program the agency has been borrowing from the general fund.**

Executive Present Law

The present law adjustments table is not presented for the Agency Legal Services Bureau, a proprietary fund agency. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustment made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

Annualize Operating - Due to an increase in demand for legal services by state agencies, Agency Legal Services Bureau was provided with two additional FTEs beginning in fiscal 1996 (one attorney and one secretary) and an additional attorney in fiscal 1997. None of these positions were filled during fiscal 1996. All three positions will be filled by fiscal 1998. The fiscal 1996 base for operating costs, therefore, needs to be increased for the ongoing expenses of the new positions. In addition, one paralegal position was vacant for a third of fiscal 1996 and one attorney position was vacant for one third of fiscal 1996. Operating costs are recommended to increase by $23,767 each year.

Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees in the Helena area to conduct official state business. The State Motor Pool is mandated by 2-17-411, MCA.

Funding

The State Motor Pool is funded by rental charges paid by state agencies which use motor pool vehicles.

Performance-Based Budget

The State Motor Pool is one of 16 state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the state motor pool is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: To provide cost efficient and reliable vehicles to state employees conducting official business.

Objective 1: To implement a test to reduce 4-door passenger vehicle costs by 25 percent per mile by the end of the 1999 biennium.

Performance Measure: Test vehicles that achieved a 25 percent cost per mile reduction over the standard non-test vehicles.

	Per Mile Costs		
	Fixed Cost	Variable Costs	Depreciation
Test Units	$X.XXX	$X.XXX	$X.XXX
Non-test Units	$X.XXX	$X.XXX	$X.XXX
Difference	$X.XXX	$X.XXX	$X.XXX
Percent Change	$X.XXX	$X.XXX	$X.XXX

Explanation: A test program is being implemented with 10 units to reduce depreciation expenses by narrowing the difference between the purchase cost and the sale value of vehicles, and to reduce operating costs by selling the vehicles before they are substantially out of warranty, need tires, or other repairs. The test vehicles are scheduled to be sold at 30,000 miles. Depending on usage, the test units should be sold early in fiscal 1999. If the test produces the anticipated results, the program will be phased into the fleet starting with 50 units in fiscal 1999. The cost reduction plan is contingent upon the test units producing the desired results, and upon legislative approval of changes in disposal methods and budgetary flexibility to implement the plan.

Objective 2: To provide a motor pool or contracted vehicle to meet the basic transportation requirements in response to all requests made a minimum of five working days prior to need date.

Performance Measure: Number of requests unmet due to non-availability of a motor pool or overflow contracted vehicle that meets the user's basic transportation needs.

Requests unmet (by class)	FY97	FY98	FY99
(For each of the 4 classes)	(Total)	(A-E)	(A-E)

A) No motor pool vehicle available which meets basic transportation needs.
B) Specific class reserved and refusal of other class.
C) Specific class being serviced and refusal of other class.
D) No overflow vehicle available.
E) Refusal for medical reasons.

Explanation: The motor pool has been gathering data on the number of user vehicle requests that have not been met; however, the information is in a summary format. The data collection for this measurement will be expanded in fiscal 1998.

Objective 3: To provide and maintain out-stationed vehicles to meet the user requirements outside the Helena area.

Performance Measures:

1) Purchased vehicles approved by OBPP and the legislature and provided to state agencies.

Vehicle Classes	FY98	FY99
(No. Vehicle authorized)	Purchased	Purchased

Explanation: The numbers and types of vehicles to be purchased are determined by the motor pool base fleet needs and the out-stationed units authorized through the budget office and approved by the legislature.

2) Annual review of all out-stationed units to determine needs.

Vehicle Classes	FYXX Average Usage
Vehicle usage	(Within 25% of mean usage)

Explanation: An inventory of all out-stationed units will be maintained including the vehicle number, agency assignment, and annual usage to enable program management recommendations on over and underutilized vehicles.

Goal 2: To maintain a preventive maintenance program to ensure vehicles are serviced, safe, and reliable.

Objective: To maintain the fleet in accordance with the motor pool preventive maintenance program standards.

Performance Measures:

1) Review the motor pool fleet to ensure that 90 percent of the vehicles are meeting level I or II preventive maintenance schedules.

Vehicles by class	FY98 (Est.)	FY99 (Est.)
Total Class Vehicles	XXX	XXX
Past Due Level I	XX	XX
Percent Past Due	.XX	.XX
Class Total	XXX	XXX
Past Due Level II	XX	XX
Per Cent Past Due	.XX	.XX

Explanation: A preventive maintenance program will be maintained monthly and a semi-annual preventive maintenance status performance report will be issued.

2) Perform a serviceability and safety inspection on 90 percent of all motor pool vehicles annually.

Vehicles by class	FY98	FY99
Total Class Vehicles	XXX	XXX
Class No. Inspected	XXX	XXX
Percent Inspected	.XX	.XX

Explanation: The motor pool will endeavor to inspect all of the units within the fleet on an annual basis. Any units missed during a year will have priority for the next year.

Goal 3: To conduct a fleet functional analysis to determine if the fleet is appropriately sized and is meeting agency and user expectations and requirements.

Objective: To review the daily use and leasing vehicle maintenance programs to ensure that vehicles are being utilized, serviced, and maintained, and that the mix and number of vehicles are within standards.

Performance Measures:

1) Conduct annual statistical fleet sizing analysis to determine basic fleet requirements, maintain the fleet within 10 percent of suggested statistical size, and implement changes in class sizes to maintain an optimum mix of vehicle types.

Fleet Sizing Review Methodology	
Total number of days of data	XXX
Mean daily usage	X.XX
1 standard deviation of the mean	X.XX
Deviation adjusted to 90 percent	X.XX
Suggested fleet size	XXX
Actual fleet size	XXX
Percentage difference	X.XX

Explanation: The annual fleet size review is to track changes in usage patterns, mix of vehicles, and, as a check and balance, to ensure that the fleet does not contain more vehicles than are appropriate.

2) Conduct a customer satisfaction survey during each biennium.

Explanation: A customer survey will be conducted to compare to past surveys and as a method of formal input into the motor pool operation.

3) Respond to customer written vehicle complaints within 10 working days.

Maintain Complaint File

Date of complaint	Date of response	Days

Explanation: Each motor pool vehicle contains a form to track user complaints and this measure will report on timeliness of responses.

LFD Comment **- Technically, the performance measures outlined for each goal and objective for the Motor Pool program appear to be reasonable and measurable activities which would promote quality improvements within the department. However, performance-based budgeting necessitates tying functions to budgetary amounts. The purpose is that if policymakers wish to adjust public policy, they can do so by reducing or increasing budgeted amounts for a particular program or function. However, policymakers have little ability to impact this particular program for two reasons. First, there are no dollar amounts attached to each goal and objective presented in the executive narrative. Secondly, the legislature no longer appropriates funds for internal service programs such as the Motor Pool. The legislature can, however, review the internal rate being charged for reasonableness, and make its intent known for the purposes for which the rate would be used.**

ACCOUNTING ENTITY	Number 06506	Name Motor Pool	AGENCY	Transportation	PROGRAM	State Motor Pool	
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Loaned Capital	FY 99 Loaned Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$867,507	$856,637	$2,297,192	$2,147,359	$3,164,699	$3,003,996	$0
Increases							
Revenue: Class 02	$207,728	$234,591	$0	$0	$207,728	$234,591	$56,438
Revenue: Class 05	0	0	0	0			10,000
Revenue: Class 06	1,169,927	1,215,903	0	0	1,169,927	1,215,903	$24,761
Revenue: Class 07	228,932	250,848	0	0	228,932	250,848	39,659
Revenue: Class 12	106,763	125,567	0	0	106,763	125,567	130,923
Other Increases (Specify)	$0	$0	$1,057,457	$1,592,296	$1,057,457	$1,592,296	$0
Proceeds from Sales	284,850	106,250	0	0	284,850	106,250	$244 650
Decreases							
Personal Services Expenses	($51,452)	($49,022)	$0	$0	($51,452)	($49,022)	($33,034)
Indirect Labor	(154,354)	(162,958)	0	0	(154,354)	(162,958)	(99,101)
Operating Expenses	(720,207)	(695,043)	0	0	(720,207)	(695,043)	(352,164)
Indirect Expenses	(38,232)	(49,039)	0	0	(38,232)	(49,039)	(106,478)
Lease Expense	(58,252)	(58,348)	0	0	(58,252)	(58,348)	(58,333)
Depreciation/Amortization	(986,573)	(1,153,540)	0	0	(986,573)	(1,153,540)	(356,995)
Other Decreases (Specify)	$0	$0	($1,207,290)	($950,873)	($1,207,290)	($950,873)	$0
Loss on Disposal of Assets	(282,860)	(92,909)	0	0	0	0	
Ending Total Fund Equity	$856,637	$621,846	$2,147,359	$2,788,782	$3,003,996	$3,410,628	

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

The fund balance is within the balance needed for the Motor Pool Program With the changes to the Motor Pool and the extreme increase in the fleet size we see the increases in the equity balance to sustain this program. Fiscal years 98-99 have increased the fund equity balance significantly because of the loan obtianed for the program to purchase these additional vehicles.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Class 02 Utility Vehicle	$0.21	$0.19	$0.29	$0.28	
Class 05 Compact Passenger Car	$0.21	$0.20	$0.00	$0.00	
Class 06 Mid-Size Passenger Car	$0.17	$0.15	$0.21	$0.20	
Class 07 Pickups	$0.17	$0.15	$0.32	$0.26	
Class 12 Vans	$0.31	$0.30	$0.28	$0.29	

Note Class 05 will be phased out of the class structure for the Motor Pool by the 98-99 biennium All cars bougth will be mid-size passenger cars.

Rate Explanation

Department of Transportation - State Motor Pool

Motor Pool Lease Rates - The proposed composite rental and lease rates for all classes of State Motor Pool vehicles have increased 27.4 percent for fiscal 1998 and 20.7 percent for fiscal 1999, compared to the base year. The increases can be attributed to the addition of lease payments for the new motor pool facility, the addition of interest payments on loans needed to provide capitalization for future vehicle purchases, increases in depreciation expenses due to higher vehicle costs and a newer overall fleet, and increases in operating expenses largely attributable to increased fuel costs.

It should be noted that the base year composite rates were artificially low. Base year rates were set low to bring the working capital reserve to within the federal guidelines of 60 days.

Construction of the new motor pool facility was completed in fiscal 1997. When the 1995 legislature appropriated the funds for the Long-Range Building Program to construct the new facility, the intent was for the motor pool to repay the highway special revenue funds used for the construction. These funds will be repaid via lease payments over six years.

Complications involving the use of federal funds to pay vehicle rental payments restrict the motor pool from including a vehicle replacement component in its rate structure. As a result, the State Motor Pool is cash poor and now relies on debt capital to purchase fleet replacement vehicles and new out-stationed lease vehicles. This increases rental rates because of the added component of interest expense. The proposed expansion of the out-stationed lease program and increases in vehicle

costs are lowering the average fleet age and increasing the average fleet cost. This increases rental rates by raising depreciation expense.

Motor Pool Expenditures - The Executive Budget proposes purchasing vehicles for the motor pool during the 1999 biennium for two reasons. First, there is a recommendation to replace 66 vehicles in fiscal 1998 and 25 vehicles in fiscal 1999 under the ongoing staggered three-year replacement cycle for the Motor Pool Program. These purchases are necessary to replace vehicles which are at the point of incurring costly maintenance. Second, the Executive Budget recommends the purchase of 116 vehicles in fiscal 1998 and 76 vehicles in fiscal 1999 as leased vehicles. Under this proposal, the motor pool will purchase and maintain vehicles which are leased to state agencies, in lieu of individual agencies purchasing, operating, and maintaining vehicle fleets. This lease recommendation not only continues the efforts approved last session, but also responds in part to a 1996 performance audit on the (lack of) management of some fleets in state agencies.

Retained Earnings and Contributed Capital - In Schedule 1, retained earnings and contributed capital are projected to decrease slightly during the 1999 biennium. As noted in the lease rates discussion above, these are contributing factors to the increase in motor pool lease rates during the 1999 biennium.

Working Capital Reserve - The working capital objective for the motor pool account is to maintain a 60 day reserve.

LFD Comment **- As noted above, the internal rates charged by the Motor Pool are projected to increase 27 percent in fiscal 1998 and 21 percent in fiscal 1999. This dramatic increase is primarily attributed to increased program expenditures which are being financed by debt capital. Specifically, the executive's new proposal request for the purchase of 192 vehicles for the lease program, totaling $3,641,392 in the 1999 biennium, and which nearly doubles the size of the current fleet managed by the department, is to be funded through a loan from the Board of Investments. Although there may be some cost savings provided to the specific state agencies which will be leasing vehicles through the State Motor Pool's expanded lease program, the internal rates on all Motor Pool vehicles will be raised in the 1999 biennium to offset lease car purchases in the biennium and this would increase related Motor Pool costs for all state agencies utilizing the Motor Pool.**

The slight decrease in rates in fiscal 1999 would appear to be based upon slightly higher anticipated revenues in fiscal 1999.

Executive New Proposals

1) Vehicle Leasing Program - The Executive Budget adds $2,177,069 and 1.00 FTE in fiscal 1998 and $1,464,323 and 1.00 FTE in fiscal 1999 to fund the purchase of vehicles to be leased by state agencies throughout the state from the State Motor Pool in lieu of these agencies purchasing and maintaining vehicles in agency fleets. This initiative, started during the 1997 biennium, reduces the agencies' budgets for purchase of the vehicles and transfers the management responsibility to the motor pool. This initiative will provide 116 vehicles in fiscal 1998 and 76 vehicles in fiscal 1999 to state agencies, as summarized by type of vehicle in Table 1. The additional staff position is required for administrative support, due to the expansion of the leasing program fleet. As shown on Table 2, this new proposal will save state government agencies more than $2.8 million over the 1999 biennium. And, after the initial first-year cost that is discussed below, the rates begin to decrease in fiscal 1999.

Table 1
Summary of Agency Leased Vehicles

Vehicle	Fiscal 1998	Fiscal 1999	Total
Sedans	64	43	107
Utility	23	12	35
Vans	4	4	8
Trucks	25	17	42
Total	116	76	192

Table 2
State Motor Pool Vehicle Recommendations

Fiscal Year 1998

Agency	# Vehicles	Lease Cost	Gas & Maintenance Cost	Replacement/ Purchase Cost	Net Savings
Dept of Justice	16.0	$71,608	($31,280)	($288,000)	($247,672)
Public Ser Regulation	3.0	33600	(10,925)	(56,850)	(34,175)
Parks	17.0	47719	(28,061)	(388,503)	(368,845)
DEQ	9.0	42086	(9,500)	(201,020)	(168,434)
Livestock	8.0	35490	(11,401)	(117,208)	(93,119)
DNRC	14.0	70440	(13,483)	(268,474)	(211,517)
Dept of Revenue	12.0	44715	(8,102)	(221,338)	(184,725)
Dept of Admin	1.0	1400	(265)	(19,507)	(18,372)
Corrections	20.0	61590	(5,370)	(342,736)	(286,516)
Labor & Industry	8.0	17350	(5,472)	(122,529)	(110,651)
Military Affairs	8.0	23016	(20,512)	(117,208)	(114,704)
FY 98 Subtotal	116.0	$449,014	(144,371)	(2,143,373)	(1,838,730)

Fiscal Year 1999

Agency	# Vehicles	Lease Cost	Gas & Maintenance Cost	Replacement/ Purchase Cost	Net Savings
Dept of Justice	19.0	$120,198	($48,466)	($345,374)	($273,642)
Public Ser Regulation	0.0	27,300	(10,925)	0	16,375
Parks	7.0	69,480	(38,245)	(156,804)	(125,569)
DEQ	4.0	58,952	(17,800)	(107,604)	(66,452)
Livestock	5.0	50,800	(37,894)	(76,185)	(63,279)
DNRC	11.0	100,593	(25,468)	(188,476)	(113,351)
Dept of Revenue	10.0	67,102	(16,102)	(199,737)	(148,737)
Dept of Admin	0.0	1,450	(265)	0	1,185
Corrections	18.0	111,080	(10,861)	(325,973)	(225,754)
Labor & Industry	2.0	22,300	(8,320)	(30,474)	(16,494)
Military Affairs	0.0	21,920	(20,512)	0	1,408
FY 99 Subtotal	76.0	651,175	(234,858)	(1,430,627)	(1,014,310)
Total	192.0	$1,100,189	($379,229)	($3,574,000)	($2,853,040)

LFD Issue - The analysis provided in the preceding Table 2 (State Motor Pool Vehicle Recommendations) is misleading in that it indicates there would be potential savings to the state totaling $2.8 million in the 1999 biennium if vehicles were leased by agencies rather than purchased. However, since the vehicles would, in fact, be purchased by the State Motor Pool, the net savings to the state would not be $2.8 million. The assumptions used in the table are not clear and it would appear that the actual savings to the agencies are largely overstated due to an inappropriate comparison of annual lease costs to one-time purchase costs (purchase costs should be spread out over the lifespan/useful years of the vehicle). Any net savings to the state generated by the Motor Pool's leasing program would be more apt to be from savings generated by bulk purchases of vehicles and through better maintenance and utilization of state vehicles. These types of savings are neither discussed nor presented in the table.

What the leasing program does do is allow agencies to transfer vehicle replacement costs to the State Motor Pool, minimizing the capitalization required by agencies. It also increases the Motor Pool's responsibility for managing a larger fleet of vehicles. The State Motor Pool is responsible for managing a fleet of approximately 197 vehicles, of which 68 have been leased to agencies. As noted in the table, a portion of the State Motor Pool's expenditures for additional vehicles is offset by lease revenue generated. The lease revenue estimates noted in the table are based on the number of vehicles the specific agency is requesting to lease multiplied by the estimated number of miles of usage, multiplied by the current rate for the class of vehicle. The internal rates which the Motor Pool charges increase dramatically in the 1999 biennium, primarily as a result of the proposed capitalization of new vehicle purchases and debt service on the newly completed State Motor Pool facility. The department intends to finance this new proposal with a loan from

the Board of Investments.

The executive narrative also references a recent audit report on Vehicle Fleet Management. The February 1996 legislative audit report on Vehicle Fleet Management suggested that efficiencies could be obtained in the area of state-owned vehicles if consistent controls or management of vehicle fleets were developed and followed by various state agencies. The state currently owns 3,000 vehicles of 1 ton or less. The report recommended that the Department of Administration, which is primarily responsible for the general administration of state government, work with agencies to develop "best practices" for vehicle management. (The report also noted a steady increase in the size of the state's vehicle assets and mentioned that during the 1995 legislative session there were requests for more than 150 vehicles).

Although it would appear that the State Motor Pool would be in a position to improve efficiencies in the area of state vehicle management, the department should: 1) identify what the actual net savings to the state are by implementing the lease program as outlined; and 2) calculate what long-term costs will be incurred by the state through increased Motor Pool debt financing and higher internal rates charged to agencies for vehicles, as opposed to the short-term benefits which will accrue to individual agencies using the leasing program.

Executive Present Law

1) Replacement Vehicle Purchase - The Executive Budget decreases by $232,722 in fiscal 1998 and $863,763 in fiscal 1999. The decrease is a combination of higher gasoline costs, an increase in commercial maintenance and debt service for vehicle purchases costs, together with a reduction in the expenditures for vehicle purchases relative to the base year. The fiscal 1996 base expenditures include both the motor pool regular fleet replacement vehicles and the costs for the 1997 biennium vehicles purchased for the lease program. This request contains only the funding to purchase 66 replacement vehicles in fiscal 1998 and 25 replacement vehicles in fiscal 1999, for the staggered three-year replacement cycle for the State Motor Pool program. Costs to support the additional vehicles to be added to the vehicle leasing program during the 1999 biennium are included as a new proposal, which is named Vehicle Leasing Program. Amounts reflected in the present law base do not increase the motor pool fleet.

Program Description

The Equipment Program is responsible for the purchase, distribution, and maintenance of all highway equipment and vehicles necessary to meet the construction, maintenance, and gross vehicle weight enforcement needs of the Department of Transportation. The equipment is rented to the other programs within the department and is authorized by statutes governing the Construction and Maintenance Programs.

Funding

The equipment program is funded by internal service (proprietary) charges for use of department equipment.

Executive New Proposals

1) HB576 Equipment Program Staff - The executive proposes reinstating 2.50 FTE and $80,694 each year of the biennium to the equipment program. In the 1997 biennium the equipment program reduced its staff level by 6.00 FTE. This level of reduction is more than the program can sustain and still maintain a minimum level of service. The FTE will be located in the Missoula, Butte, and Glendive divisions.

LFD Issue **- The 6.0 FTE reduction in the 1997 biennium, which brought the program's FTE level to 116.0, was proposed by the executive to fund the continuing costs of the pay plan. Prior to the passage of HB 576, the 1995 legislature approved the reduction and reduced the program's budget by $397,607 in the 1997 biennium. The executive's request for $161,388 in funding for 2.5 FTE in the 1999 biennium amounts to 40 percent of the savings which were to be generated by the reduction. The legislature may wish to ask the agency how the continuing costs of the pay plan are going to be funded.**

ACCOUNTING ENTITY:	Number 06508	Name Equipment	AGENCY:	Transportation	PROGRAM:	Equipment

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$40,450,353	$40,811,433	$2,522,542	$2,522,542	$42,972,895	$43,333,975
Increases						
Revenue	$15,761,845	$15,821,870	$0	$0	$15,761,845	$15,821,870
Auction Proceeds	407,750	620,100	0	0	407,750	620,100
Decreases						
Personal Services Expenses	($4,622,185)	($4,760,851)	$0	$0	($4,622,185)	($4,760,851)
Operating Expenses	(6,403,660)	(6,595,770)	0	0	(6,403,660)	(6,595,770)
Depreciation/Amortization	(4,400,000)	(4,600,000)	0	0	(4,400,000)	(4,600,000)
Other Decreases (Specify)						
Loss on Disposal of Assets	($382,670)	($400,731)	$0	$0	($382,670)	($400,731)
Ending Total Fund Equity	$40,811,433	$40,896,051	$2,522,542	$2,522,542	$43,333,975	$43,418,593

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

Rate-Setting Objectives:

(a) The equipment rental rates will not be set until the actual fiscal year that the rates pertain to. These rates will be supported by the Equipment Management System (EMS system) .

(b) The fiscal 1997 rental rates were developed under a method consistent with previous years. The fiscal 1998 and fiscal 1999 rental rates will be based from the fiscal 1997 schedules.

(c) Different rates will be established for each year of the biennium. The fiscal 1998 and fiscal 1999 rates are estimated to increase by 3 percent each year above the fiscal 1997 rates.

Rate Explanation

Department of Transportation - Equipment Program

Highway Equipment Rental Internal Service Fund Revenues - The Highway Equipment fund has two customers, both from within MDOT. The Maintenance and Construction Programs are the customers, and rates are developed for 121 classes and subclasses comprised of usage rates and assigned time rates. The usage rate is applied to all gasoline and diesel, and some non-fuel classes. The usage rate recovers direct costs. The assigned time rate recovers all indirect costs such as indirect personal services, utilities, miscellaneous shop and equipment supplies, and non-reimbursable equipment damage expenses.

These rates are anticipated to increase by approximately 3 percent each year over the fiscal 1997 rates. However, actual rates are not set until the beginning of the year for which they are effective.

Executive Present Law

The present law table is not presented for the MDOT Equipment Program internal service fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of internal service fund fees and charges. However, narrative for significant present law adjustments is presented for explanatory purposes.

1) HB576 Fueling Stations - Increases in the cost of gasoline and diesel fuel combined with the opening of 25 new MDT fueling stations across the state increase the base budget by $164,378 each year of the biennium. These fueling stations are

:vailable to all city, county, and state vehicles via the GasCard system.

:) HB576 Overtime & Differential Pay - The net increase above the base year of $42,500 in fiscal 1998 and $44,366 in fiscal 999 is due to additional overtime and differential pay. Differential pay is requested to compensate staff for filling in and aking over duties until vacant positions are filled.

ACCOUNTING ENTITY:	Number 06007	Name Yellowstone Airpor	AGENCY:	Transportatioo	PROGRAM:	Aeronautics

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earoings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$293,945	$301,842	$215,320	$215,320	$509,265	$517,162
Increases						
Landing Fees	$9,500	$9,500	$0	$0	$9,500	$9,500
Fuel Flowage	4,500	4,500	0	0	4,500	4,500
Rentals and Leases	14,500	14,500	0	0	14,500	14,500
Sales Receipts	26,100	26,100	0	0	26,100	26,100
West Yellowstone Tax Transfer	17,000	17,000	0	0	17,000	17,000
Miscellaneous Receipts	8,300	8,300	0	0	8,300	8,300
Energy West (Note 1)	9,900	10,100	0	0	9,900	10,100
Nevada Testing (Note 1)	12,000	12,000	0	0	12,000	12,000
West Yellowstone Lagoon	9,600	9,600	0	0	9,600	9,600
Decreases						
Personal Services Expenses	($39,630)	($40,819)	$0	$0	($39,630)	($40,819)
Operating Expenses	(52,047)	(53,608)	0	0	(52,047)	(53,608)
Depreciation/Amortization	(11,826)	(11,826)	0	0	(11,826)	(11,826)
Ending Total Fund Equity (Note 2)	$301,842	$307,189	$215,320	$215,320	$517,162	$522,509

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

We are currently building a cash balance for Federal Airport Improvement Project Match and use in operations. Fund balances are sufficient to meet these goals.
Note 1: CPI-U assumed to be 2% per year for estimating purposes.
Note 2: The runway and related improvements are not included. To date these have been viewed as infrastructure and are not recorded on SBAS.

Fee/Charge Description		FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Landing Fees - Scheduled Air Carriers		$0.50/1000 lbs	$0.50/1000 lbs	$0.50/1000 lbs	$0.50/1000 lbs	Market Based
Landing Fees - Other Uses	11,000-31,250lbs	$25	$25	$25	$25	Market Based
Landing Fees - Other Uses	>31,250lbs	$0.80/1000 lbs	$0.90/1000 lbs	$0.90/1000 lbs	$0.90/1000 lbs	Market Based
Fuel Flowage Fees (0015)		$0.06/gallon	$0.06/gallon	$0.06/gallon	$0.06/gallon	Market Based
Building Leases - Car Rental	per month	$1.55/sq. ft.	$1.55/sq. ft.	$1.55/sq. ft.	$1.55/sq. ft.	Market Based
Building Leases - FBO's & Tours	per month	$1.2975/sq. ft	$1.2975/sq. ft.	$1.42725/sq ft.	$1.42725/sq. ft.	Market Based
Building Leases - Airlines	per month	$1.8908/sq. ft	$1.8908/sq. ft.	$1.8908/sq. ft.	$1.8908/sq. ft.	Market Based
Building Leases - U/G Storage	per month	$0.025/sq. ft.	$0.03/sq. ft.	$0.03/sq. ft.	$0.03/sq. ft.	Market Based
Building Leases - Hanger Ground	per year	$0.05/sq. ft.	$0.05/sq. ft.	$0.05/sq. ft.	$0.05/sq. ft.	Market Based
Tax Transfer		$15,000 est.	$18,000 est.	$18,000 est.	$18,000 est.	15-23-106 MCA
Sales Receipts - Car Rental		10% of gross	10% of gross	10% of gross	10% of gross	Market Based
Sales Receipts - Cafe/Gift Shop		5% of gross	5% of gross	5% of gross	5% of gross	Market Based
Miscellaneous Sales		Various	Various	Various	Various	Market Based
Non-Aero Rentals - Nevada Testing	per year	$5,400/year	Prior yr + CPI-U	Prior yr + CPI-U	Prior yr + CPI-U	Market Based
Non-Aero Rentals - City of WYS	per year	$4,600/year	$9,600/year	$9,600/year	$9,600/year	Market Based
Non-Aero Rentals - Energy West	per acre per year	$2,375/acre	Prior yr + CPI-U	Prior yr + CPI-U	Prior yr + CPI-U	Market Based

Rate Explanation

Department of Transportation - Aeronautics Program

West Yellowstone Airport Fund - The Aeronautics Division administers an account for the operation of the West Yellowstone Airport. Revenues deposited to this enterprise fund are primarily from landing fees, fuel flowage fees, facility rental, percentage of vendor sales, and airline property tax.

Increases to fees, transfers, and rental costs are proposed for landing fees for aircraft >31,250 pounds, building leases for FBO and tours, and for underground storage, an increase in the tax transfer, and an increase in non-aeronautical rentals.

Retained Earnings and Contributed Capital - As noted in Schedule 1, retained earnings and contributed capital are projected to increase during the 1999 biennium. The department is working toward building a cash balance for use in federal airport improvement project match and operations.

Executive New Proposals

1) WYS Security FTE - The Executive Budget adds 0.30 FTE and $4,914 each year of the biennium from the West Yellowstone Airport proprietary account for a position to handle the airport security functions. The traffic at the airport is a mix of domestic and foreign customers. The airport terminal building is open daily from 7:00 a.m to 12:00 a.m. in the summer season. Two current FTEs are only sufficient to cover the shift from 8:00 a.m. to 5:00 p.m. daily. The six airport terminal building tenants and their employees have requested additional building security personnel to cover the extended business hours.

ACCOUNTING ENTITY:	Number 06005	Name Liquor Division	AGENCY:	Revenue	PROGRAM:	Liquor

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$300,000	$300,000	$1,916,306	$1,916,306	$2,216,306	$2,216,306
Increases						
Liquor Sales	$47,244,204	$48,160,147	$0	$0	$47,244,204	$48,160,147
License Fees	1,592,688	1,592,688	0	0	1,592,688	1,592,688
Other Income	14,375	14,375	0	0	14,375	14,375
Decreases						
Personal Services Expenses	($436,515)	($449,610)	$0	$0	($436,515)	($449,610)
Operating Eexpenses	(310,204)	(319,510)	0	0	(310,204)	(319,510)
Depreciation/Amortization	(72,887)	(75,074)	0	0	(72,887)	(75,074)
Other Decreases (Specify)						
Cost of Goods Sold	($29,661,888)	($30,238,000)	$0	$0	($29,661,888)	($30,238,000)
Inventory Shortages	(6,000)	(6,000)	0	0	(6,000)	(6,000)
Transfers Out - License Fees	(1,592,688)	(1,592,688)	0	0	(1,592,688)	(1,592,688)
Transfers Out - Taxes	(10,816,542)	(11,026,246)	0	0	(10,816,542)	(11,026,246)
Transfers Out - Profits	(5,954,543)	(6,060,082)	0	0	(5,954,543)	(6,060,082)
Ending Total Fund Equity	$300,000	$300,000	$1,916,306	$1,916,306	$2,216,306	$2,216,306

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The objective of the Fund Equity balance is to maintain an ending balance of $2,216,306. $300,000 signifies the cash required for working capital for the next 60 days and the remaining $1,916,306 is related to the contributed capital balance. All profits accumulated in this enterprise fund will be transferred to the general fund.

Rate Explanation

Department of Revenue - Liquor Division

Liquor Division Account Revenues - Revenues relating to the enterprise fund are from two major sources: the sale of alcoholic beverages to franchise agents and the licensing of manufacturers, wholesalers, and retailers of alcoholic beverages. The liquor sales shown in Schedule 1 represent gross sales less discounts and commissions. Projected growth will occur only due to increases in product costs and not due to units sold. Units sold are projected to remain constant. The cost of goods sold is projected to grow at a rate of 1.98 percent per year.

License fees are also projected to remain constant. Other income is made up of small amounts of miscellaneous revenues.

Liquor Division Account Expenditures - For purposes of Schedule 1, personal services and operating expenses are projected to increase by 3 percent per year based upon the fiscal 1997 appropriations.

There are no new proposals for the liquor enterprise fund (Liquor Division) account. The change in budget methodology from a combination of HB 2 language appropriations and budgeted, non-appropriated proprietary operating plans to complete non-appropriated status is in compliance with statutory changes made by HB 576 and is explained in more detail under the Executive Present Law heading.

Retained Earnings and Contributed Capital - As noted in Schedule 1, retained earnings are projected to remain constant during the 1999 biennium. Contributed capital of $1,916,306 represents the amount expended from the Long-Range Building Program account for the construction of the state liquor warehouse and the initial purchase of equipment. The state liquor warehouse was first occupied during February, 1978.

LFD Issue - The $1.9 million is the construction cost of the state liquor warehouse and is presumably what the building cost in 1978. It is not clear why this amount is carried as an asset on liquor fund accounting records, as the liquor fund does not carry the building as an asset on its balance sheet. Even if the division did carry the building as an asset on its balance sheet, depreciation charges since 1978 would have reduced its worth as contributed capital to the liquor fund.

Working Capital Reserve - The working capital objective for the liquor division account is to maintain a 60 day reserve. Payments from franchise agents are due 60 days after the date that goods are shipped from the warehouse.

LFD Comment - See Table 3 for a calculation of 60-day working capital based on operating expenses. Agency officials indicate that the $300,000 working capital balance they keep to meet expenditures is actually the cash reserve they try to maintain. They contend $300,000 is sometimes insufficient to meet payments to vendors and usually try to maintain a cash reserve of $500,000. Based on the 60-day working capital calculation shown at the bottom of Table 3, even $500,000 may also be insufficient if costs of goods sold are factored in.

Table 3
Total Operations Costs and Working Capital Balance

	FY 98	FY 99	Total Biennium	Source
(1) Total Costs	$48,812,130	$49,696,580	$98,508,710	Executive Budget
(2) Local Assistance	$1,443,638	$1,443,638	$2,887,276	Executive Budget
(3) Transfers	16,992,580	17,281,997	34,274,577	Executive Budget
(4) Total Non-Operating Costs: (2) + (3)	$18,436,218	$18,725,635	$37,161,853	
(5) Total Operating Costs: (1) - (4)	$30,375,912	$30,970,945	$61,346,857	
(6) Cost of Goods for Resale	$29,623,092	$30,198,497	$59,821,589	Executive Budget
(7) Operating Costs Less Cost of Goods	$752,820	$772,448	$1,525,268	
60-Day Working Capital				
With Cost of Goods Included	$4,993,301	$5,091,114	$10,084,415	
Without Cost Of Goods Included	123,751	126,978	250,729	

Executive Present Law

The present law adjustments table is not presented for the Liquor Enterprise proprietary fund account portion of the Liquor Division Program. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

Overtime - The increase of $8,250 in fiscal 1998 and $5,250 in fiscal 1999 for anticipated overtime expenditures is attributable to the change from biweekly to weekly liquor shipments. The change was initiated in May, 1996, and the base year reflects only two months of operation under the weekly shipment schedule. In order to meet customer demand during weeks containing state holidays, warehouse personnel must work overtime the day prior to the holiday. An additional eight days of overtime is projected for peak periods of demand in non-holiday weeks.

Distributions & Merchandise - The significant distribution expenses and the cost of liquor merchandise incurred in the operation of the state liquor warehouse and distribution system increase by $29,706,067 in fiscal 1998 and $30,282,0016 in fiscal 1999. The increases are only due to the change in budgeting methodology for these expenses whereby they are combined with the budgeted, non-appropriated HB 576 administrative expenses rather than separated into HB 2 language appropriations as in the current biennium. Because the base year expenses were appropriated by language, they are excluded from the base year expenses. The actual change in the cost of merchandise from the fiscal 1996 base year is a net increase of $1,927,995 in fiscal 1998 and $2,503,400 in fiscal 1999.

Payments to Cities & Counties - Distributions of liquor license taxes to local governments increase by $1,416,179 in fiscal 1998 and $1,443,638 in fiscal 1999. The increases are only due to the change in budgeting methodology for HB 576 expenses and the absence of the base year expenses from the program table due to the HB 2 language appropriation status in fiscal 1996. The budgeted amounts actually represent net decreases from the base year of $158,500 in fiscal 1998 and $131,041 in fiscal 1999.

Transfers to General Fund - Transfers of liquor taxes, license taxes, license fees, and liquor profits from the liquor enterprise fund account to the general fund increase by $16,992,580 in fiscal 1998 and $17,281,997 in fiscal 1999. The projected transfers include liquor profits of $6,013,793 in fiscal 1998 and $6,121,222 in fiscal 1999. The increases are only due to the change in budgeting methodology for HB 576 and the absence of the base year expenses due to the inclusion in a HB 2 language appropriation during fiscal 1996. The budgeted transfers actually represent a net decrease of $1,174,363 in fiscal 1998 and a net decrease of $884,946 in fiscal 1999 below the base year.

LFD Issue **- According to the executive language recommendation, "the division shall attempt to return at least 19 percent of net sales to the general fund." Based on the figures in the executive budget and the rate explanation table, the division will return only 16.5 percent of net sales to the general fund in the 1999 biennium. See Table 4 for specific figures.**

Table 4
Projected Net Sales and Return on Net Sales for the 1999 Biennium

	FY 98	FY 99	Total Biennium	Source
(1) Gross Sales	$47,244,204	$48,160,147	$95,404,351	Rate Explanation Table
(2) Taxes	10,816,542	11,026,246	21,842,788	Rate Explanation Table
(3) Net Sales: (1) - (2)	$36,427,662	$37,133,901	$73,561,563	
(4) Profits	$6,013,793	$6,121,222	$12,135,015	Present Law Explanation
Return on Net Sales: (4)/(3)	16.5%	16.5%	16.5%	

Replace Warehouse Equip - The increase of $40,000 in fiscal 1998 and $35,000 in fiscal 1999 is to purchase replacement forklifts and accessories. The present equipment was purchased in fiscal 1977 and it has become necessary to establish a replacement cycle. The fiscal 1998 replacement will be a 5,000 pound forklift and the 1999 replacement will be a 4,000 pound unit.

Replace Computer Equip - The increase of $5,960 each year from the base provides for the replacement of two personal computers and three printers annually. The total replacement costs are $7,000 each year.

Executive Language Recommendation

The following executive language recommendation is similar to language authorized in the general appropriations act for the current biennium:

> "During the 1999 biennium, the division shall attempt to return at least 19 percent of net sales to the general fund. Net sales are gross sales less discounts, commissions, and all taxes collected. The division shall limit biennial operational expenses of the liquor merchandising system to not more than 8.25 percent of net sales. For purposes of this expense limitation, operational expenses include all merchandising expenses, including depreciation, plus department overhead allocable to the merchandising system, but do not include product costs and freight charges."

LFD Comment **- Please see the LFD Issue in the present law section.**

ACCOUNTING ENTITY	Number 6504	Name Legal Unit	AGENCY:	Administration	PRDGRAM:	Acctng & Mgmt Support

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	($16,290)	($16,290)	$0	$0	($16,290)	($16,290)	($16,290)
Increases							
Revenue	$106,601	$109,800	$0	$0	$106,601	$109,800	$103,497
Revenue	0	0	0	0	0	0	0
Revenue	0	0	0	0	0	0	0
Decreases							
Personal Services Expenses	($95,701)	($98,572)	$0	$0	($95,701)	($98,572)	($92,914)
Operating Expenses	(10,900)	(11,227)	0	0	(10,900)	(11,227)	(10,583)
Depreciation/Amortization	0	0	0	0	0	0	0
Ending Total Fund Equity	($16,290)	($16,289)	$0	$0	($16,290)	($16,289)	($16,290)

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

The negative fund equity reflects compensated absences of $21,404.

Rate Explanation

Department of Administration - Accounting and Management Support Program

Legal Services Account - The Legal Unit located in the Director's Office advises all divisions within the department on legal matters. Funding through the Legal Services internal service fund is derived from charging the department's non-general fund divisions for service provided by the Legal Unit. These divisions are budgeted for their appropriate share of legal services costs.

The funding level from this internal service fund is based upon the assumption (from a time study) that the legal unit will devote 1.83 FTE of their 2.0 FTE on legal matters of the non-general fund divisions. The fund pays for personal services costs of the 1.83 FTE and associated operating costs. The remaining 0.17 FTE in the Legal Unit is paid by the general fund. All operating costs are paid in the proprietary fund.

It is projected that divisions within the department will continue to request and receive the same level of services from the Legal Unit. For the current 1997 biennium, these divisions are budgeted to pay the following share of the 1.83 FTE:

Grade 19 Attorney - 0.83 FTE/Grade 18 Attorney - 1.00 FTE

ISD - 14 percent
Teachers' Retirement - 16 percent
Public Employees' Retirement - 50 percent
Architecture and Engineering - 14 percent
General Services - 6 percent

These percentages will not change for the 1999 biennium.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to remain constant through the biennium.

Working Capital Reserve - The divisions listed above are billed on a semi-annual basis in July and January. This process eliminates the time-consuming task of monthly billing, and no aging of accounts receivable is necessary. The Legal Unit objective is for revenues to equal the legislative appropriation with a minimal cash reserve.

ACCOUNTING ENTITY:	Number 06554	Name Debt Collection	AGENCY:	Administration	PROGRAM:	Acctng & Mgmt Support	
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$756	$8,580	$4,820	$4,820	$5,576	$13,400	$22,996
Increases							
Debt Charges	$240,000	$252,000	$0	$0	$240,000	$252,000	$225,000
Revenue							
Revenue							
Decreases							
Personal Services Expenses	($180,176)	($185,581)	$0	$0	($180,176)	($185,581)	($180,928)
Operating Expenses	(50,000)	(51,500)	0	0	(50,000)	(51,500)	(57,168)
Depreciation/Amortization	(2,000)	(2,000)	0	0	(2,000)	(2,000)	(2,166)
Other Decreases (Specify) Audit	$0	($2,000)	$0	$0	$0	($2,000)	($2,158)
Ending Total Fund Equity	$8,580	$19,499	$4,820	$4,820	$13,400	$24,319	$5,576
Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee		
12% of Collections	$2,000,000	$2,100,000					

Rate Explanation

Department of Administration - Accounting and Management Support Program

Bad Debt Division Proprietary Account - The bad debts program assists in the recovery of funds owed state agencies. Recovered funds, less the fee for collection, are returned to the agency that holds the debt. If the debt originally was to a general fund program, the money is returned to the general fund. Historically, about half the collections made are returned to the general fund.

The Bad Debt Collection Program was created in 1975 within the Department of Revenue. The program remained attached to the Department of Revenue for sixteen years. In 1991, the program was moved to the State Auditor's Office. In 1996 it was transferred to the Department of Administration, where it currently resides within the Accounting and Management Support Division under Accounting Entity 06554.

Agencies refer debts to the program after they have exhausted their internal debt collection efforts. The Bad Debt Collection Program utilizes three components in recovering assigned debt. These components are:

Internal Collection: Internal collection involves program staff making contact with a debtor. Once contact is made, various methods are used by the staff to recover the owed debt. Many times, the debtor will work with the program staff in setting up a repayment program to absolve their debt. In other cases, bank accounts can be levied against to recover owed money.

Offset System: The offset process is integrated with the state Warrant Writing Program that is also attached to the Accounting and Management Support Division within the Department of Administration. Offsets, the most productive recovery process, stops state warrants from being paid when the payee is identified as owing a state debt. When a warrant is stopped, the staff check to make sure that the debt is valid before offsetting the owed amount from the check being issued. An example of this process occurs when an income tax refund check is issued by the Department of Revenue to someone who owes child support payments. The state stops the payment and offsets for the amount due the child support program.

Private Collection: Private collection agencies are used for certain kinds of debts that are difficult for the offset or internal collection efforts to collect. Out-of-state debtors often fall into this category. This process is the least productive of the three methods used to collect within the program.

The goal of the bad debt services is to continue the business-oriented approach that has been successful over the past years, striving for lower costs and a greater return of money owed.

In estimating the rate for fiscal years 1998 and 1999, revenue is based on collecting $2 million dollars in fiscal 1998 and $2.1 million in fiscal 1999. This is historically the amount collected over the past few years. Some of the old debts the program has been collecting on will be replaced with new debts received from the counties based on legislation that passed in 1995. The IRS may also continue to assign some of its debts, but much of the federal assignment depends on proposed legislation that would allow the state to have the debtor pay the debt collection fee.

Projected Expenditures - Fiscal 1997 operating plan at first level includes personal services $166,504 and operating expenses of $39,168.

Expenses have been projected to increase 3 percent over 1997 for salaries and slightly higher for operating expenses because of increasing costs in computer processing charges due to a larger database and more activity. Because of other increasing volume, items such as postage and long-distance telephone charges also increase more than the 3 percent. The 12 percent rate will allow an adequate cash reserve. The rate private collection agencies currently charge the state is about 33 percent.

There are no "fixed cost" allocations to agencies because in most cases, the program subtracts the charge from what is returned to the agencies.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to increase modestly during the biennium.

Working Capital Reserves - The projected working capital balance as of the end of the 1999 biennium is less than 60 days reserve.

ACCOUNTING ENTITY	Number 06560	Name Network Support Unit	AGENCY	Administration	PROGRAM	Acct/MSB

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	($1,521)	$689	$0	$0	($1,521)	$689	$0
Increases							
Revenue: Network Support Fees	$88,109	$88,177	$0	$0	$88,109	$88,177	$74,685
Revenue Programmer Fees	31,973	32,932	0	0	31,973	32,932	22,000
Revenue Maintenance Pool	5,000	5,000	0	0	5,000	5,000	6,000
Decreases							
Personnal Services Expenses	($108,934)	($112,202)	$0	$0	($108,934)	($112,202)	($91,353)
Operating Expenses	(12,648)	(13,027)	0	0	(12,648)	(13,027)	(12,396)
Depreciation/Amortization	(1,290)	(833)	0	0	(1,290)	(833)	(457)
Ending Total Fund Equity	$689	$736	$0	$0	$689	$736	($1,521)

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

This is a cost allocation pool which provides network support, programmer and self-maintenance to the Department f Administration with the exception of some divisions who have their own staff (ISD, Publications & Graphics, Property & Supply and Teachers' Ret.) The objective is to cover the costs of operation only, and the above balances do that.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Network support per computer	$503	$505	$547	$548	Administrative Allocation
Programmer per hour	15	15	18	18	
Computer Maint per computer	128	128	128	128	

Rate Explanation

Department of Administration - Accounting and Management Support Program

Data Processing Unit Proprietary Fund Account - The Network Support Unit is located in the Management Support Bureau of Accounting and Management Support Division. Funding for the Network Support Unit internal service fund is from three different sources: the Network Support Unit charges per computer for network support which includes software and hardware installation, trouble calls and software questions. Programming is also offered through this unit on a per hour basis. Computer self-maintenance is covered through a pooled fund. Expenditures and revenues are recorded in responsibility center (r/c) 1707 for the Network Support Unit, r/c 1713 for the programmer and r/c 1706 for the maintenance pool. The programmer has been funded with proprietary carry-forward funds in the 1997 biennium.

Historical and Projected Demand for Services: The divisions within the Department of Administration will continue to need computer support/programming and computer maintenance from the Network Support Unit.

Revenue Objective - Divisions are billed once a year for network support services as well as computer self-maintenance. Programming is billed based on actual hours used. The computer self-maintenance program could potentially decrease in the 1999 biennium based on how many computers are purchased with a three-year warranty.

The Network Support Unit is an internal cost pool, and the revenue objective is to operate on a break-even basis. Since billing is done in July of each fiscal year, a small working capital balance is needed.

No other revenues are received other than billings to divisions within the department.

Projected Expenditures

A. FY97 SBAS Operating Plan by first level

Personal Services	$91,353
Operations	12,396
Total	$103,749

B. Projected 1999 biennium Present Law Base

	FY98	FY99
Personal Services	$108,934	$112,202
Operations	12,648	13,027
Equipment	2,500	
Totals	$124,082	$125,229

C. No indirect costs are allocated.

D. One computer at $2,500 has been requested in fiscal 1998.

Retained Earnings and Contributed Capital - As shown in Schedule 1, the account maintains minimal retained earnings. The objective is to cover the costs of operation.

Working Capital Reserve - The estimated working capital balance at the end of the 1999 biennium is less than 60 days reserve.

ACCOUNTING ENTITY:	Number 06564	Name Warrant Writing	AGENCY:	Administration	PROGRAM	Acctg & Mgmt Support

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$74,570	$89,024	$34,882	$34,882	$109,452	$123,906
Increases						
Warrant Charges	$796,701	$776,263	$0	$0	$796,701	$776,263
Decreases						
Personal Services Expenses	($158,819)	($163,584)	$0	$0	($158,819)	($163,584)
Operating Expenses	(600,428)	(618,441)	0	0	(600,428)	(618,441)
Depreciation/Amortization	(11,000)	(10,000)	0	0	(11,000)	(10,000)
Other Decreases (Specify)						
Audit	($12,000)	($15,572)	$0	$0	($12,000)	($15,572)
Ending Total Fund Equity	$89,024	$57,690	$34,882	$34,882	$123,906	$92,572

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Mailer warrants - postage paid	$0.5631	$0.5544	$0.5431	$0.5309	
Mailer warrants - no postage	0.2471	0.2384	0.2271	0.2149	
Non-mailers	0.2329	0.2242	0.2050	0.1928	
External\SRS\Payroll	0.2091	0.2004	0.1891	0.1769	
External\University	0.1970	0.1883	0.1836	0.1714	
Emergency Warrants	5.3790	5.3756	3.2047	3.2829	
Duplicate Warrants	10.9993	10.9959	8.6931	8.9169	
Direct Deposit	0.1448	0.1216	0.1388	0.1251	

Rate Explanation

Department of Administration - Accounting and Management Support Program

Warrant Writing Proprietary Account - The Department of Administration provides the Warrant Writer Program to most state agencies for check writing and auto-deposit capabilities for financial transactions. This service is contained within the accounting program within accounting entity 06564.

Warrants are produced and processed by the program. Each warrant is tracked on the warrant writer system. The program generates, mails, tracks, and cashes each transaction. Services offered include direct deposit, warrant consolidation, stop payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing.

The system handles about 2 million payment transactions for state government per year. Transactions include warrants and electronic transfers for vendor payments, retirement payments for public employees and teachers, payroll, worker's compensation, income tax refunds, special refunds, and public assistance benefit payments. In addition, the program maintains a central payee file to facilitate payment processing. The program is also responsible for consolidation of 1099-MISC information for the Internal Revenue Service. The program coordinates compliance with IRS rules governing 1099 MISC-filings and error reports.

Historical and Demand Projections: Demand is forecasted for the following categories of payments: mailer warrants, non-mailer warrants, emergency warrants, duplicate warrants, external warrants and electronic fund transfers. Each of these categories is forecasted using historic data.

Forecasts are required at the end of May so that figures can be used in the Executive Budget Process. Based on warrant volume in May and June, projections of warrant growth in the next biennium are conservative.

Projections for fiscal 1998 and fiscal 1999 were made using the following methodology. Each category was projected using actual fiscal 1994 (unless unavailable), fiscal 1995, and to-date fiscal 1996 data. Fiscal 1994 was compared to fiscal 1995 actual and a rate of change was computed. The fiscal 19 95 numbers through April were then compared to fiscal 1996 numbers through April. Both time frame values (percentage increase\decrease) were added together and divided by 2 for an average change. This average change was then used to multiply against actual fiscal 1995 volumes to project fiscal years 1998 and 1999.

When percentages increased or decreased dramatically, we looked at factors influencing the change. Adjustments were made to these projections to reflect these influences. An example of this adjustment occurs with Department of Revenue mailers. The Department issued about 210,000 warrants for the special income tax refund in November 1995. Since this is not to be expected in the future, that amount was subtracted out in 1998 and also an amount in 1999 to get a more realistic actual. The Department of Revenue is expecting to have direct deposit for income tax refunds available to all people by 1998, but the agency does not know how many people will take advantage of that opportunity, so a conservative number has been included for that change.

# ISSUED by Type	FY94	FY95	FY96est	FY97est	FY98est	FY99est
Mailers	1,202,390	1,294,417	1,470,000	1,245,770	1,267,844	1,271,214
Nonmailers	198,338	244,703	240,000	275,000	283,423	289,283
Emergency	256	150	160	85	94	95
Duplicates	1,127	1,178	1,300	1,300	1,274	1,340
Externals	344,505	346,027	310,000	275,000	288,018	281,247
Direct Deps	125,598	135,928	169,000	172,000	179,306	181,470

Proposed Rate Structure

The proposed rate structure for each type of warrant\payment is included in the detailed information available. Individual transaction cost is determined by conducting time, supply, and processing analysis to determine the "estimated actual cost" of each payment option. Where possible personal service costs are allocated to specific types of transactions before allocating the remaining costs to all other transactions. Fixed expenditures such as audit fees, miscellaneous supplies, rent and telephone charges, are allocated to all transactions. Variable costs such as postage, maintenance, computer processing, and warrant stock are allocated at a fixed rate against those items that utilized them.

LFD Comment **- One of the goals of the warrant pricing structure was to reduce the number of duplicate warrants written by placing a relatively high price on duplicate warrants. Estimates of the number of duplicate warrants to be written in the 1999 biennium shows no reduction from the estimated number that will be written in the 1997 biennium.**

Projected Expenditures

The fiscal 1997 operating plan expense by first level is:

Personal Services	$163,855
Operating	$557,460
Equipment	$ 29,806

Fixed expenses and salaries are calculated using the approved 3 percent allowed increase. Computer processing rates on an

individual item basis are reduced by 5 percent as allowed, but since most of this type of activity falls under the variable rate structure, the actual total amount is not reduced by 5 percent. There are no indirect costs allocated to this program. The only new proposal planned for this program is computer equipment replacement amounting to $7,500 in fiscal 1998.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to decline during the 1999 biennium.

Working Capital Reserve - The estimated working capital balance at the end of the 1999 biennium is less than 60 days reserve.

Executive Present Law

The present law adjustments table is not presented for the Legal Services and Bad Debt Division proprietary fund accounts. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

Computer Replace/Debt Collections - There is an increase of $20,520 in fiscal 1998 for replacement personal computers. The request consists of five replacement computers for the Debt Collection Unit and an additional three replacement computers for the Warrant Writer Unit, and one replacement computer for the Network Support Unit. Funding is proportional from the three proprietary accounts. No replacement equipment is requested for fiscal 1999.

Executive New Proposals

1) NSU Maintenance Pool - The executive recommends $10,000 in fiscal 1998 to accommodate self-maintenance for computers in place of purchasing maintenance through a vendor. Funding is from the Network Support Unit proprietary fund account.

2) Funding Change/Warrant Writer - The executive recommends a funding switch for 6.00 FTE and $767,979 in fiscal 1998 that will move the Warrant Writer Unit from HB 2 appropriated proprietary funding to budgeted, non-appropriated proprietary funding in accordance with HB 576. The funding switch is for 6.00 FTE and $740,655 in fiscal 1999. The Warrant Writer Unit meets the criteria required for non-appropriated proprietary funds in that it is funded 100 percent from proprietary funds in the 1999 biennium and does not require an appropriation of other funds for any part of its function. The proposal includes an adjustment of FTE and associated funding between the Warrant Writing Unit and the Debt Collection Unit such that the Warrant Writing Unit adds 1.00 FTE and transfers 0.50 FTE. The net impact is a total of 6.50 FTE assigned to the Warrant Writing Unit each year.

3) Funding Change/Network Support Unit (NSU) - The executive recommends a funding switch for 3.00 FTE and $112,001 in fiscal 1998 that will move the Network Support Unit from HB 2 appropriated proprietary funding to budgeted, non-appropriated proprietary funding in accordance with HB 576. The funding switch is for 3.00 FTE and $112,028 in fiscal 1999. The Network Support Unit meets the criteria required for non-appropriated proprietary funds in that it is funded 100 percent from proprietary funds in the 1999 biennium and does not require an appropriation of other funds for any part of its function.

4) Oracle Development Tools - Beginning in fiscal 1998, all agencies will be responsible for purchase and maintenance of its own set of Oracle development tools. The executive adds $2,500 in fiscal 1998 and $375 in fiscal 1999 for purchase of Oracle development tools using 100 percent proprietary funds.

5) Novell ManageWise - The executive recommends adding $4,200 in fiscal 1999 to purchase Novell ManageWise network management software. This software will allow the Network Support Unit to provide more effective and efficient service to its users. Funding is 100 percent proprietary.

6) Move 0.50 FTE to Bad Debts - The executive recommends moving 0.50 FTE and $17,874 in fiscal 1998 from the Warrant Writing Unit to the Debt Collection Unit. The proposal will move 0.50 FTE and $17,414 in fiscal 1999.

7) Move 1.00 FTE from Bad Debts - The executive recommends moving 1.00 FTE and $29,004 each year from the Debt Collection Unit to the Warrant Writing Unit.

ACCOUNTING ENTITY	Number 06530	Name Pub & Graphics	AGENCY	Administration	PROGRAM	93861

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$1,183,972	$1,198,678	$0	$0	$1,183,972	$1,198,678	$1,188,519
Increases							
Internal Printing	$1,780,328	$2,037,539	$0	$0	$1,780,328	$2,037,539	$1,774 135
Pass-Through Printing	4,925,765	5,059,317	0	0	4,925,765	5,059,317	3,537,504
PhotoCopy	914,219	944,742	0	0	914,219	944 742	843,520
Decreases							
Personal Services Expenses	($775,846)	($949,345)	$0	$0	($775,846)	($949,345)	($896,076)
Operating Expenses	(6,624,668)	(6,893,277)	0	0	(6,624,668)	(6,893,277)	(5 139 686)
Depreciation/Amortization	(205,092)	(209,114)	0	0	(205,092)	(209,114)	(123 944)
Ending Total Fund Equity	$1,198,678	$1,188,540	$0	$0	$1,198,678	$1,188,540	$1,183,972

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

Publications & Graphics objective for fund equity is to not have an increase The Bureau plans to keep rates that have the Bureau breaking even each Fiscal Year.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Internal Printing	$1,507,135	$1,774,135	$1,780,328	$2,037,539	18-7-101-107, MCA
Pass Through Printing	4,649,309	3,537,504	4,925,765	5,059,317	18-7-101-107, MCA
PhotoCopy Pool	816,266	843,520	914,219	944,742	

Rate Explanation

Department of Administration - Procurement and Printing Division

Publication and Graphics - The Publication and Graphics Bureau provides services in internal printing; claims auditing for contracted printing; and administration of the photocopy pool. Agencies are billed for various services provided with rates that recover the costs of personnel, operating expenses, and necessary equipment purchases. The methodology for developing its proposed rates for fiscal 1998 and fiscal 1999 is as follows:

Internal Duplicating: Publications and Graphics does not intend to increase its internal duplicating rates for fiscal 1998 and 1999. However, the following inflation factors could affect rates if they exceed 3 percent allocation: pay plan; paper; and rent, mail and messenger, postage, communications, insurance, and computer services.

LFD Comment **- The bureau's revenue projections and its estimates of service levels are not consistent. In fiscal 1998, the bureau will charge the same rates as in fiscal 1997 and plans to do 16 percent fewer duplications, yet expects its revenue to increase by over $6,000. In fiscal 1999, the bureau will still charge the same rates as in fiscal 1997 and expects to do 3 percent more impressions, but estimates that its revenue will increase by 14.8 percent. (See the rate table and the estimated levels of service table for revenue and service estimates.)**

Contracted Printing: Publications and Graphics does not intend to increase its contracted printing rates for fiscal 1998 and 1999. The following inflation factors could affect rates if they exceed the 3 percent allocation: pay plan; increases in pass through printing; and rent, mail and messenger, postage, communications, insurance, and computer services.

Photocopy Pool: Inflation increases of 12 percent in fiscal 1998 and 1999 are based upon expiration of a three year old contract.

LFD Issue **- Photocopy pool rates are not a specific dollar amount, but a markup of 10 percent over costs. Agency officials estimate that the 12 percent inflation will increase costs by $245,960 in fiscal 1998 and $274,756 in fiscal 1999. Since state law allows state agencies to purchase services directly from the private sector if private sector prices are cheaper than Publications and Graphics prices, agencies are probably sensitive to cost increases. The Publications and Graphics Bureau revenue estimates show that the bureau expects to be able to pass along the full amount of it increase in costs to its customers. If there is a reduction in photocopy use that offsets the increase in prices, there will be a reduction in revenue. Even if revenues do increase, it is not likely that the bureau will be able to pass along the full amount of the cost increase. The bureau must charge rates commensurate with its costs and based its rates for photocopy pool services on its cost and revenue estimates. Because actual revenues are not likely to meet revenue projections, actual revenue may not be sufficient to cover the full costs of the photocopy pool.**

Administration: Administrative services are allocated to Internal Printing, Pass-through Printing, and Photocopy based on the number of FTE for each area.

The estimated level of service is as follows:

	FY95	FY96	FY97	FY98	FY99
Internal					
Number of Duplication Impressions (Millions)	62.1	50.5	62.5	52.5	64.5
Contracted					
Number of Purchase Orders	1500	1500	1500	1500	1500
Photocopy Pool					
# of Photocopier Machines	205	200	205	200	205
# of Photocopies (Millions)	27.7	25	25.5	25	25.5

Retained Earning and Contributed Capital - As shown in Schedule 1, retained earnings are projected to remain essentially constant over the biennium with rates designed for a break-even cost recovery.

ACCOUNTING ENTITY:	Number 06531	Name Central Stores	AGENCY:	Administration	PROGRAM	93862

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$1,107,946	$944,419	$0	$0	$1,107,946	$944,419	$1,263,350
Increases							
Forms	$43,693	$45,004	$0	$0	$43,693	$45,004	$36,293
Office Supplies	1,004,934	1,035,082	0	0	1,004,934	1,035,082	988,109
Computer Paper	480,620	495,039	0	0	480,620	495,039	481,449
Fine Paper	1,398,169	1,440,114	0	0	1,398,169	1,440,114	1,368,104
Janitorial	436,928	450,036	0	0	436,928	450,036	409,054
Coarse Paper	655,392	675,053	0	0	655,392	675,053	651,640
Computer Software	349,542	360,028	0	0	349,542	360,028	307,368
Decreases							
Personal Services Expenses	($323,876)	($333,592)	$0	$0	($323,876)	($333,592)	($314,443)
Operating Expenses	(4,180,124)	(4,305,528)	0	0	(4,180,124)	(4,305,528)	(4,058,373)
Depreciation/Amortization	(28,805)	(28,805)	0	0	(28,805)	(28,805)	(24,605)
Ending Total Fund Equity	$944,419	$776,850	$0	$0	$944,419	$776,850	$1,107,946

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

Property & Supplys objective for the Central Stores Program is to have a fund equity decrease. The Bureau reduced prices by up to 15% in FY96. The Bureau plans to keep the reduced rates and to have working capital at or less than 60 days.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Forms	$35,236.00	$36,293.00	$43,693.00	$45,004.00	
Office Supplies	959,329.00	988,109.00	1,004,934.00	1,035,082.00	
Computer Paper	467,426.00	481,449.00	480,620.00	495,039.00	
Fine Paper	1,328,256.00	1,368,104.00	1,398,169.00	1,440,114.00	
Janitorial	397,139.00	409,054.00	436,928.00	450,036.00	
Coarse Paper	632,661	651,640	655,392	675,053	
Computer Software	298,415	307,368	349,542	360,028	

Rate Explanation

Department of Administration - Procurement and Printing Division

Central Stores Account - Central Stores purchases, warehouses, sells, and delivers commonly used items to all state agencies in the following categories: office supplies, coarse paper, fine paper, computer paper, janitorial supplies, printed forms, and software. Rates are established to recover costs of personnel, operating expenses, necessary equipment purchases, and any costs for additional inventory requirements. Central Stores has operated at a minimal profit for the last five years. The program attempts to maintain a 45 day operating reserve to support operations and the required inventory levels. During the next biennium, Central Stores will continue to operate at minimal profit and allow cash reserves to support inventory levels and obsolete equipment.

Central Stores service levels are projected using historical data and trends as follows:

	FY96	FY97	FY98	FY99
Office Supplies	959,329	988,109	1,004,934	1,035,082
Coarse Paper	632,661	651,640	655,392	675,053
Fine Paper	1,328,256	1,368,104	1,398,169	1,440,114
Computer Paper	467,426	481,449	480,620	495,039
Janitorial Supplies	397,139	409,054	436,928	450,036
Printed Forms	35,236	36,293	43,693	45,004
Software	298,415	307,368	349,542	360,028

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to decrease during the biennium primarily due to a 15 percent reduction in rates in fiscal 1996 to decrease the fund equity and maintain the working capital at or less than 60 days.

Working Capital Reserve - Central Stores customers are invoiced daily for the prior days shipments. Accounts are usually collected within 30 to 45 days. Cash reserves normally decrease as customer accounts receivable balances increase, but reserves increase to the 45 day as year end approaches and accounts receivable is reduced to zero for fiscal year end. The reserve objective of the fund is to anticipate inventory growth, equipment replacement by maintaining an approximate reserve of 45 days operating and keeping prices competitive.

ACCOUNTING ENTITY	Number 06558	Name Natural Gas Proc.	AGENCY	Administration	PROGRAM	93865

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$3,069	$3,069	$0	$0	$3,069	$3,069	$3,069
Increases							
Revenue	$303,936	$313,054	$0	$0	$303,936	$313,054	$228,936
Revenue	0	0	0	0	0	0	0
Revenue	0	0	0	0	0	0	0
Decreases							
Personal Services Expenses	$0	$0	$0	$0	$0	$0	$0
Operating Expenses	(303,936)	(313,054)	0	0	(303,936)	(313,054)	(228,936)
Depreciation/Amortization	0	0	0	0	0	0	0
Ending Total Fund Equity	$3,069	$3,069	$0	$0	$3,069	$3,069	$3,069

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

It is the intent of this program to only charge rates which generate enough revenue to cover administrative expenses.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Storage Gas	$99,285	$228,936	$303,936	$313,054	

Rate Explanation

Department of Administration - Procurement and Printing Division

National Gas Procurement Account - The Natural Gas Transportation Program purchases natural gas competitively from outside suppliers for qualifying state agencies. Prior to November 1, 1991, only "bundled" natural gas service was available, i.e., natural gas was purchased by the utility and delivered by the utility. The six state agencies are: University of Montana, Montana Developmental Center, Montana State Hospital, Northern Montana College, Montana State Prison, and Montana State University. The transportation program was created as a result of "unbundling" action by the Public Service Commission whereby non-core shippers, with a large enough volume, were afforded the opportunity to find their own sources of natural gas, to be delivered to the locations via the Montana Power Company pipeline system.

Since its inception in November, 1991, the six state agencies involved have saved a total of $4.6 million versus the default option of having Montana Power continue to purchase natural gas on their own behalf. The transportation program decides, on a daily basis, how much gas each facility will need, monitors consumption, is responsible for managing each agency's storage reserves, and acts as a liaison between the agencies and Montana Power. Participating agencies are assessed a minimal overhead fee to cover the costs of administering the program.

Rent and Maintenance Expenditures - Most of the Natural Gas Transportation Program budget is for purchasing of storage gas for user agencies. Storage gas costs are billed to the user agencies with no markup. Yearly, agencies are billed for the administrative costs associated with running the program. These costs are divided equally between all the user agencies. Inflationary factors which will effect rates, but cannot be determined at this time, include rent, mail and messenger, postage, communications, insurance, and computer services. Any inflation will be passed to the user agencies in the form of higher storage gas and/or administrative costs. Service levels for the natural gas program are based on estimated storage gas to be purchased for user agencies.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earning are projected to remain constant during the biennium with rates adequate to cover administrative expenses.

Working Capital Reserve - Government entities are billed yearly for the administrative costs associated with the natural gas program. This billing is usually done in December of each fiscal year. Monthly expenditures will remain steady except for the month when storage gas is bought for the user agencies.

ACCOUNTING ENTITY	Number 06561	Name Fueling Program	AGENCY	Administration	PROGRAM	93864

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$7,449	$1,405	$0	$0	$7,449	$1,405	$17,802
Increases							
Revenue: Admin Charges	$11,900	$12,000	$0	$0	$11,900	$12,000	$6,000
Revenue	0	0	0	0	0	0	0
Revenue	0	0	0	0	0	0	0
Decreases							
Personal Services Expenses	$0	$0	$0	$0	$0	$0	$0
Operating Expenses	(14,073)	(14,495)	0	0	(14,073)	(14,495)	(13,276)
Depreciation/Amortization	(3,871)	(3,737)	0	0	(3,871)	(3,737)	(3,077)
Ending Total Fund Equity	$1,405	($4,827)	$0	$0	$1,405	($4,827)	$7,449

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

Rates will be charged that have revenues equal expenses so that the program breaks even each year
Since working capital was too high, rates have been reduced so that working capital decreases.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Fuel Transaction Charge	$16,831	$6,000	$11,900	$12,000	

Rate Explanation

Department of Administration - Procurement and Printing Division

Statewide Fueling Network Account - The Purchasing Bureau Vehicle Fueling Program for fueling public vehicles through an integrated commercial/public fueling network. The program, which is available to all public agencies, offers an alternative to the capital expense and environmental liability of owning and operating fuel storage tanks. The program automates the accounting and transaction processing functions associated with vehicle fueling, offers a system of security, maintains agency tax exemption status for transactions anywhere on the network and provides monthly comprehensive fuel management reports to assist fleet managers in tracking and controlling fuel costs.

Rent and Maintenance Expenditures - The Vehicle Fueling Program adjusts its rates to break-even each year. The program continues to grow and, as a result, revenue will continue to grow. The program has lowered its rate during fiscal 1996 to reduce its working capital. Inflationary factors which will impact rates, but cannot be determined at this time, include rent, mail and messenger, postage, communications, insurance, and computer services. The Vehicle Fueling Program does not intend to increase rates above those that are projected unless inflation on the above factors is extremely high. Service levels for the Vehicle Fueling Program cannot be determined at this time. The purpose of the program is to provide service to all federal, state, and local government entities that wish to enroll in the program.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to decrease during the biennium. This is primarily due to a reduction of rates to reduce working capital.

ACCOUNTING ENTITY:	Number 6066	Name Surplus Property	AGENCY:	Administration	PROGRAM: Procurement & Printing		
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$279,188	$318,307	$423,000	$423,000	$702,188	$741,307	$659,965
Increases							
State Surplus Prop. Handling Fee	$361,438	$372,281	$0	$0	$361,438	$372,281	$350,911
Federal Surplus Prop. Hndlg. Fee	434,390	447,421	0	0	434,390	447,421	421,738
RLSO Property Handling Fee	3,320	3,419	0	0	3,320	3,419	3,223
Decreases							
Personal Services Expenses	($281,759)	($290,212)	$0	$0	($281,759)	($290,212)	($273,553)
Operating Expenses	(446,547)	(459,943)	0	0	(446,547)	(459,943)	(433,540)
Depreciation/Amortization	(31,723)	(31,723)	0	0	(31,723)	(31,723)	(26,555)
Ending Total Fund Equity	$318,307	$359,550	$423,000	$423,000	$741,307	$782,550	$702,189 includes con-

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
State Surplus Prop. Handling Fee	$340,690	$350,911	$361,438	$372,281	
Federal Surplus Prop. Hndlg. Fee	409,454	421,738	434,390	447,421	
RLSO Property Handling Fee	3,129	3,223	3,320	3,419	

Rate Explanation

Department of Administration - Procurement and Printing Division

Surplus Property - The Property and Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by state agencies. Value added service provided by the program includes: 1) extending the life of state property by providing a mechanism to transfer surplus property between agencies; 2) creating a broad and efficient market for selling state surplus; 3) providing accountability in the disposal of surplus state property; 4) providing agencies with a surplus equipment pick up service; and 5) providing a screening service to locate federal surplus property for state and local agencies.

Fee Structure - Other than the administrative fee charged to agencies, proceeds from the sales of surplus equipment are returned to the agency. The following fee structure applies to the sale of all state surplus property:

- Sale value of $150.00 or less - 100 percent of value retained by the Property and Supply Bureau.

- Sale value greater than $150.01 - 8 percent of sale value retained plus extraordinary sale expenses if applicable.

- All auction fixed costs will be absorbed by Property and Supply Bureau. Fixed costs include security, car washing, and facility rental.

- No transfer fee will be charged for property transferred among state agencies. If Surplus Property is required to physically move the property between agencies a flat fee of $25.00 per hour is charged to the recipient agency.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to increase slightly during the biennium based on projected increases in revenue from state and federal handling fees.

Executive Present Law

The present law table is not presented for the Procurement and Printing Division proprietary fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund premiums and charges. However, narrative for significant present law adjustments is presented for explanatory purposes.

1) Photocopy Pool - The Executive Budget adds $245,960 in fiscal 1998 and $274,756 in fiscal 1999 due to the growth in the photocopy cost per copy program. The estimate is based on a 12 percent inflation to the actual fiscal 1996 costs which included a one-time 30 percent. Additional costs in fiscal 1999 to cover the legislative copier costs requirements.

LFD Issue - See the LFD Issue in the section on Publications and Graphics program rates for a discussion of the effects of this increase on rates.

2) Bar Coding - The Executive Budget adds $143,095 in fiscal 1998 to install bar coding capability on the Property and Supply Bureau's inventory system.

3) Leased Vehicle Replacement - For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $1,400 in fiscal 1998 and $1,450 in fiscal 1999 for one van. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $265 each year of the biennium for gasoline and maintenance cost savings. Refer to the department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

4) P&G Equipment - The Executive Budget decreases $48,655 in fiscal 1998 and $125,730 in fiscal 1999 to replace equipment including a collator and duplicator to reduce excessive maintenance and downtime.

5) Pallet Jack - The Executive Budget adds $4,000 in fiscal 1998 to replace with a machine with enhanced capability a Property and Supply Bureau pallet jack subject to high maintenance costs and frequent breakdowns.

6) Installment Purchase - The Executive Budget adds $50,000 each year of the biennium for a five year installment purchase of an electronic document processing duplicator with interface capabilities with other agencies, a scheduled replacement for quick copy services.

7) Computer Replacement - The Executive Budget adds $19,696 in fiscal 1998 and $1,896 in fiscal 1999 to replace computers in the Publications and Graphics Bureau and the Fueling Program and to replace a server in the Property and Supply Bureau.

Executive New Proposals

The new proposal table is not presented for the Procurement and Printing Division proprietary fund. The concept of individual new proposal adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund fees and charges. However, narrative for new proposals is presented for explanatory purposes.

1) Pave Surplus Property Yard - The executive recommends adding $37,000 in fiscal 1998 for paving the surplus property yard to improve employee and visitor safety. Funding is 100 percent proprietary.

2) Pallet Shrink Wrap Machine - The Executive Budget adds $5,000 in proprietary funds to purchase a pallet shrink wrap machine. The machine will allow for more efficient packaging and reduce the amount of product damage loss.

Program Description

The Information Services Division (ISD) manages central computer services and telecommunications services for state government. Central computing services include the following: 1) central mainframe computer processing; 2) shared statewide data communications network services accessing the central mainframe; 3) data processing planning and coordination and review and approval of equipment and software acquisitions; 4) design, development, and continuous maintenance support of data processing applications; 5) data processing training; 6) microcomputer and office automation support and consultation; and 7) disaster recovery facilities for critical data processing applications. Telecommunications services include the following: 1) local and long-distance telephone networking; 2) design and development of telephone equipment, networking applications, and other telecommunications needs; 3) management of the statewide 911 emergency telephone number function; and 4) radio frequency coordinating with local government.

The division operates generally under state mandates as specified in Title 2, Chapter 17, parts 3 and 5, MCA. Administration of the emergency 911 telephone function is mandated under Title 10, Chapter 4, parts 1-3, MCA.

Funding

The Information Services Division is funded by the central data processing proprietary fund, the state 911 telephone fund, and state special revenue. The central data processing fund receives money from fees that ISD charges for providing services to state agencies. Charges for some services are fixed fees. Charges for other services, such as data network service, depend on usage. The division pays local and long-distance telephone bills on behalf of state agencies; reimbursements the division receives from agencies also go to the central data processing account. ISD is requesting spending authority for the 1999 biennium of $50,166,647 from the central data processing account.

The division receives funds to administer the state emergency 911 telephone function from the state 911 program account. This account receives funds primarily from emergency telephone tax revenues. ISD is requesting that spending authority for the 1999 biennium be provided in a statutory appropriation of $3,510,982.

The division plans to fund the public safety radio function from the public safety radio state special revenue fund. The division is requesting spending authority for the 1999 biennium of $325,000, with half of the funding to come from the public radio state special revenue fund and the other half to come from the central data processing fund.

ACCOUNTING ENTITY	Number 06522	Name Information Services Division	AGENCY: Administration	PROGRAM:

Description	FY 98 Retained Earning Unreserved	FY 99 Retained Earning Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$8,879,298	$8,019,815	$0	$0	$8,879,298	$8,019,815	$10,110,410
Budget Based Billing Receipts	0	0	0	0	0	0	0
(From FY 96 Contracts)							
Adjusted Fund Balance	$8,879,298	$8,019,815	$0	$0	$8,879,298	$8,019,815	$10,110,410
Increases							
COB	$9,376,545	$9,295,296	$0	$0	$9,376,545	$9,295,296	$7,510,567
SSB	849,112	849,112	0	0	849,112	849,112	550,830
DATA	6,893,618	6,893,618	0	0	6,893,618	6,893,618	3,722,007
VOICE	7,441,615	7,558,745	0	0	7,441,615	7,558,745	7,295,540
Other Increases (Specify)	0	0	0	0	0	0	0
Total Fund Increases	$24,560,890	$24,596,771	$0	$0	$24,560,890	$24,596,771	$19,078,944
Decreases							
Personal Services Expenses	$5,917,781	$6,028,782	$0	$0	$5,917,781	$6,028,782	$4,498,562
Operating Expenses	14,780,802	14,675,808	0	0	14,780,802	14,675,808	11,218,409
Depreciation/Amortization	4,321,790	3,473,333	0	0	4,321,790	3,473,333	4,293,085
Residual Equity Transfer (SWCAP)	400,000	400,000			400,000	400,000	300,000
Grand Total Expenses	$25,420,373	$24,577,923	$0	$0	$25,420,373	$24,577,923	$20,310,056
Other Decreases (specify)							
Residual Equity Transfers	$0	$0	$0	$0	$0	$0	$0
Ending Total Fund Equity	$8,019,815	$8,038,663	$0	$0	$8,019,815	$8,038,663	$8,879,298

Fee/Charge Inflation/Deflation* (By Object Code)		Expressed as Compared to FY 96 Rates FY97	FY98	FY99	Authority for Fee
Microfilm Service	2144	0%	5%	5%	2-17-501 - 2-17-503, MCA
Computer Processing	2172	-33%	-33%	-46%	2-17-501 - 2-17-503, MCA
Data Network Services	2174	0%	47%	47%	2-17-301 - 2-17-305, MCA
Systems Develop Services	2175	0%	5%	5%	2-17-501 - 2-17-503, MCA
Operational Support Services	2183	0%	6%	6%	2-17-501 - 2-17-503, MCA
Misc Info sys Services	2185	0%	0%	0%	2-17-501 - 2-17-503, MCA
Two-Way Video	2320	0%	0%	0%	2-17-301 - 2-17-305, MCA
Telephone Equip	2370	0%	-27%	-27%	2-17-301 - 2-17-305, MCA
Long Distance Charge	2385	-4%	-10%	-10%	2-17-301 - 2-17-305, MCA

* Percentage increases/decreases are based on comparison with the rates established in FY96. Rates are expressed by object code.

ACCOUNTING ENTITY 06522 Information Services Division

SERVICE FUNCTION DESCRIPTION	COB FY98	FY99	SSB FY98	FY99	DATA FY98	FY99	VOICE FY98	FY99	TOTAL ACCT ENTITY FY98	TOTAL ACCT ENTITY FY99
Estimated Beginning working Capital Balance	1,238,629	1,443,233	130,382	116,397	717,101	383,008	1,173,438	857,428	3,259,551	2,800,067
BDGT BASED BILLING RECEIPTS (From FY 96 Contracts)	0								0	0
ADJUSTED WKING CAPTL BAL.	1,238,629	1,443,233	130,382	116,397	717,101	383,008	1,173,438	857,428	3,259,551	2,800,067
Projected Revenues:										
Service Fees	9,376,545	9,295,296	849,112	849,112	6,893,618	6,893,618	7,441,615	7,558,745	24,560,890	24,596,771
TOTAL projected Revenues:	9,376,545	9,295,296	849,112	849,112	6,893,618	6,893,618	7,441,615	7,558,745	24,560,890	24,596,771
Exec. Budget Recommended Expenses:										
Personal Services Expenses	2,461,605	2,492,176	699,546	702,340	1,886,151	1,954,174	870,480	880,093	5,917,781	6,028,782
Operating Expenses	4,909,645	5,287,659	139,120	124,094	3,557,809	3,100,824	6,174,228	6,163,231	14,780,802	14,675,808
Equipment (Capital Adj. - Depr)	1,800,691	1,547,110	24,431	22,046	1,783,751	1,367,588	712,917	536,589	4,321,790	3,473,333
RESIDUAL EQUITY TRSFR(SWCAP)									400,000	400,000
Total Projected Expenses:	9,171,941	9,326,945	863,097	848,480	7,227,711	6,422,586	7,757,625	7,579,913	25,420,373	24,577,923
Estimated Ending Working Capital Balance	1,443,233	1,411,584	116,397	117,029	383,008	854,040	857,428	836,260	2,400,068	2,818,915
60 Days Working Capital Reserve	20	20	2	2	5	12	12	12	33	39
Excess Estimated Working Capital Above (Below) Limit (2)	(40)	(40)	(58)	(58)	(55)	(48)	(48)	(48)	(27)	(21)
APPROXIMATE FY 98 BUDGET	$26,348,653									

Technical Notes:
(1) Equipment may be included in the calculation of the working capital reserve to the extent that cash or other working capital will be used in the acquisition.
(2) Excess working capital above the 60-day limit must be justified in this schedule or in supporting documentation.
(3) Working Capital allocations are based on respective contributions to working capital in the FY 95 timeframe.

Rate Explanation

Department of Administration - Information Services Division

LFD Comment **- As shown in Schedule 1, the department has not provided rate information, but instead have inserted percentage changes. This display does not present information necessary to understand the rate structure, or the relative size of the rates.**

Central Data Processing Account Revenues - Revenues relating to the internal service fund are from four major revenue centers: state mainframe processing rates based upon central processing unit (CPU) seconds or other per transaction rates (COB), systems support and development rates based upon an hourly service rate (SSB), network rates charged on a monthly or yearly basis per workstation or installation (DATA), and voice telecommunication rates charged on equipment and long distance usage basis (VOICE).

Charges to state agencies are budgeted in several ways:

Inflation/Deflation Factors: Mainframe processing, telephone equipment, and long distance rates are applied as deflation factors in the 1999 biennium relative to the fiscal 1996 base year. Mainframe processing rates decrease by 33 percent in fiscal 1998 and 46 percent in fiscal 1999. Telephone equipment rates decrease by 27 percent each year and long distance charges decline by 10 percent each year.

Fixed Costs: The projected costs for the monthly data network rate are assigned to agencies as fixed costs based upon a monthly rate and projected number of network devices. The monthly rate increases from $36 per month per intelligent device (PC) to $53 per month per intelligent device in fiscal 1998 and fiscal 1999. The monthly rate for non-intelligent devices (terminals) remains constant at $30 per month.

Zero-Based Costs: The hourly rates charged for systems support and development are requested and budgeted based upon projected hours of service.

Central Data Processing Account Expenditures - For purposes of Schedule 1, personal services and operating expenses are projected to increase by 3 percent per year based upon the fiscal 1997 appropriations. Present law adjustments and new proposals are included in the total expenses according to the requested first level category. Residual equity transfers under the Statewide Cost Allocation Plan (SWCAP) are shown as expenses.

Retained Earnings and Contributed Capital - As noted in Schedule 1, retained earnings are projected to decline during the 1999 biennium as expenses and residual equity transfers exceed revenues. A similar decline is also projected to occur during fiscal 1997.

Working Capital Reserve - The working capital objective for the central data processing account is to maintain a reserve of 45 days or less. The working capital analysis shown in Schedule 2 allocates working capital among the major revenue centers and projects a working capital reserve of 39 days at the end of the 1999 biennium.

***LFD Issue* - Network Service Rate Increases**

The statewide data network administered by the Information Services Division connects personal computers in each state agency to the state mainframe and to personal computers in other agencies. State agencies pay for a this service through a monthly fee charged by ISD for each computer terminal connected to the network. The amount of the fee depends on whether the computer terminal is a "smart" or a "dumb" terminal. Smart terminals are able to perform a number of tasks and communicate with other computers. Dumb terminals can only retrieve and display information. In fiscal 1997, the rate charged for dumb terminals was $30 per month; this rate will not change in the 1999 biennium. The rate for smart terminals in fiscal 1997 was $36. ISD is requesting legislative approval for a rate increase to $53 per month for smart terminals.

ISD officials explained that the rate increase is required to pay for new proposals and present law adjustments. The new proposal to replace the "ZIP!Office" electronic mail (E-mail) system that state agencies now use with a new E-mail system is responsible for 47 percent ($8.00) of the rate increase. Summitnet expansion is responsible for 12 percent ($2.08) of the increase. Table 5 shows total spending increases from present law adjustments and new proposals grouped by spending category.

Table 5
ISD Spending Increases: Present Law and New Proposals

	FTE	FY 98	FY 99
Programming and Equipment Costs			
Document Management	1	$138,143	$63,143
E-Mail	3	814,668	571,110
Hardware and Software	1	1,007,379	674,575
GIS	3	260,924	260,924
Internet Services	2	86,945	73,945
Mid-tier Support	2	247,084	247,084
Oracle Programming	3	328,916	328,916
Total	15	$2,884,059	$2,219,697
System Upgrades			
Mainframe	1	$384,959	$1,120,643
Capitol Backbone	0	79,068	79,068
Total	1	$464,027	$1,199,711
Telephone and Telecommunications			
State Telecommunications Network	1	$284,801	$284,801
State Telephone System	0	621,436	621,436
Total	1	$906,237	$906,237
Summitnet Expansion	2	$772,085	$772,085
Public Safety Radio	0	$325,000	$325,000
Year 2000	0	$329,000	$287,000
Other	2	$63,850	$63,850
Grand Total	21	$5,744,258	$5,773,580

Many of the new proposals, such as E-mail replacement and Oracle programming, are one-time-only system development costs. As shown in Schedule 1 under "DATA," working capital is expected to increase significantly in fiscal 1999, when the majority of system development costs will have been paid. Because these funds do not require an appropriation, the legislature may only approve or disapprove an agency's rates; it cannot accept or reject specific new proposals and present law increases or designate expenditures as "one-time-only." Though the legislature cannot designate the system development costs as one-time-only, it can instead make it known that it is the intent of the legislature that rates be reduced in the future once development costs have been paid.

Executive Present Law

The present law adjustments table is not presented for the Central Data Processing proprietary fund account. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

Mainframe Processor Upgrade - There is an increase of $348,988 in fiscal 1998 and $1,084,672 in fiscal 1999 for the state mainframe processor equipment upgrades. Additional equipment authority is recommended in order to replace the currently installed 3390 direct access storage device (DASD) and model 3490 magnetic tape with more modern, higher density storage equipment. The DASD equipment will be purchased on the used market. Magnetic tape is the storage media utilized to back up all DASD data for transport to the state disaster recovery hot site to accommodate any disaster affecting the mainframe data center. This requires the configuring of the magnetic tape equipment to always be compatible with the state hot site vendor configuration in Federal Way, Washington. The increase also provides for replacement of two currently installed 3825 laser printers.

LFD Comment **- Agency officials at first expected that the increased use of midtier platforms would reduce demand for use of the mainframe. While it is true that use of the mainframe accounts for a smaller percentage of total systems use than in the past, the absolute level of mainframe use is not declining. Agency officials say this is because removal of the larger production systems such as accounting and taxation from the mainframe**

to the midtier platform is happening more slowly than they predicted. Agency officials believe that the midtier platform will not have a large effect on mainframe demand for at least one to two biennia.

The rate that ISD plans to charge state agencies for use of the mainframe in the 1999 biennium is 33 percent lower than the rate charged in fiscal 1996. The rate reduction is possible because for any given percentage increase in mainframe capacity, the associated costs will increase by a lesser percentage. For example, if mainframe capacity increases by 20 percent, the associated costs will increase by less than 20 percent. Even though total system costs will increase, average costs (costs per unit of capacity) will decline. For the rate reduction to be feasible, state agencies must use the added capacity; if the added capacity is simply excess capacity, rates will have to increase.

Several factors could reduce the amount of mainframe capacity ISD will require, such as the number of agencies using the mainframe. Expansion of the mid-tier system will also affect the amount of needed mainframe capacity. The legislature may want to ask ISD officials for more information about mainframe capacity requirements before approving the request for processor upgrades.

Software - Operating - There is an increase of $711,333 in fiscal 1998 and $1,041,491 in fiscal 1999 for software license fee increases resulting from increasing processor "group" through upgrade installations.

Summitnet Expansion - There is an increase of $700,140 each year to provide for additional communications services to support Summitnet growth. Significant growth is expected in the number of local government agencies, school districts, libraries, non-profit corporations, and private sector businesses requiring access to state agency applications. In order to accommodate this expected growth, the core backbone infrastructure will need to be upgraded.

LFD Comment **- Local government agencies, school districts, libraries, etc. pay the portion of Summitnet expansion costs associated with installation of hardware at their location. The state pays core hardware and software costs.**

Hardware Debt Service - There is an increase of $913,683 in fiscal 1998 and $260,721 in fiscal 1999 for the debt service associated with current commitments including the obligations entered into during fiscal 1997.

State Telephone Switch Upgrade - There is an increase of $311,436 each year to upgrade the current Capitol complex, U of M-Missoula, MSU-Bozeman, and MSU-Billings telephone switches to accommodate the growing voice, video, and data requirements for the state network. These upgrades will allow the state to continue on a migration path that will provide for continued growth, as well as a platform for new services, and that will protect the original investment made over eleven years ago.

Telephone Station Growth and Replacement - There is an increase of $310,000 each year to provide telephone sets, line cards, and other telephone switching equipment to support state agency adds, moves, and changes. Agency requests for new telephones or replacement of existing telephone sets continue to grow at a rate of a least 5 percent per year. The state telephone system was purchased over 12 years ago and many of the original telephone sets need to be replaced as they are worn out or no longer provide the functionality requested by the user agencies.

State Telecommunications Network - There is an increase of $263,634 each year to upgrade existing network services among the four major nodes on the state telecommunications network. Existing digital facilities will be replaced between Missoula, Helena, Bozeman, and Billings with DS-3 (45 MBPS of bandwidth). This move will consolidate existing voice, video, and data transport onto a single network infrastructure, provide significant bandwidth growth, and improve reliability.

LFD Comment **- Agency officials say that because it is unclear how user requirements will change, it is difficult to predict how often it will be necessary to upgrade the state telecommunications network. Officials are hopeful that the requested upgrade will allow the network to operate satisfactorily for three to five years.**

Replace PCs - There is a net decrease of $653,608 in fiscal 1998 and $663,608 in fiscal 1999 below the base. Replacement personal computers are requested to meet the growing workload associated with new and changing technologies and are anticipated as follows:

	FY 98	FY 99
Admin/PDCR	$33,645	$28,645
COB	35,000	35,000
Telecom/Voice	13,000	13,000
Telecom Data	40,000	40,000
SSB	72,000	67,000
9-1-1	5,000	5,000
Total	$198,645	$188,645

Replacement of office equipment, two personal computers, and three printers each year is recommended to meet demands for Telecom voice operations services. The total replacement cost is $16,902 each year.

Executive New Proposals

The executive new proposals incorporate, with one exception, the recommendations submitted by the state Information Technology Advisory Council (ITAC). The new proposal for year 2000 conversion coordination was added by the executive without the express recommendation of ITAC.

LFD Comment **- In total, ISD is requesting a net addition of 21.0 FTE in fiscal 1998 and 22.0 FTE in fiscal 1999. The FTE requested would increase the ISD workforce by 16 percent in both fiscal 1998 and fiscal 1999.**

Internet Services - The executive adds 2.00 FTE and $86,945 in fiscal 1998 and 2.00 FTE and $73,945 in fiscal 1999 to provide resources to centrally manage and support Internet services for state government. This service will be provided on a fee basis to state agencies.

Statewide GIS Coordination and Support - The executive recommends 2.00 FTE and $221,764 each year to implement a statewide Geographic Information System (GIS) coordination and support system and to purchase supporting hardware. The system will provide service to all state agencies as needed. The recommendation includes $50,000 each year to purchase services of a metadata (data about data) coordinator and $74,500 each year to purchase contracted support services.

LFD Issue **- The Department of Revenue is requesting $11,560 for GIS hardware. The legislature may wish to determine if ISD efforts will duplicate or complement Department of Revenue efforts to develop a GIS system.**

Summitnet Expansion-Additional FTE - The executive recommends 2.00 FTE and $71,945 each year to accommodate the growing support required by statewide Summitnet users.

Help Desk Support - The executive recommends 1.00 FTE and $33,179 each year to accommodate the estimated 2,000 new data terminals that will be connected by the end of fiscal 1999.

Financial Services Unit Accounting FTE - The executive recommends 1.00 FTE and $30,671 each year to meet workload increases in the Financial Services Unit. The workload is driven by the constantly expanding customer base.

Capitol Operator Support FTE - The executive recommends 1.00 FTE and $21,167 each year to help absorb the increased workload in the Telecommunications Operations Bureau.

Enterprise E-Mail -The executive recommends 3.00 FTE and $814,668 in fiscal 1998 and 4.00 FTE and $571,110 in fiscal 1999 to purchase electronic mail (E-Mail) software and hardware and contracted services to train the staff and users.

LFD Issue **- Enterprise E-Mail will replace the "ZIP!Office" system that state agencies are using now. The largest share of the requested amounts will go for system purchase and development. If the legislature wishes, it may state its intent that since the development costs of the new system should be one-time-only costs, any future cost reductions be used to lower ISD network service rates. Agency officials have explained that the vendor who sold ZIP!Office no longer supports the system.**

Enterprise Database Support - The executive recommends 1.00 FTE and $256,971 each year for a software support specialist to implement and support the Oracle 2000 enterprise database. The proposal includes the licensing cost of Oracle 2000 and training costs necessary to develop and maintain agency applications.

LFD Comment **- The Oracle database system will allow agencies to share data, so that it will no longer be necessary to enter data into more than one database. "Oracle" is a computer software system that agency officials have explained will allow for more system "integration." Since many agencies make use of the same data (lists of names, social security numbers, employees, etc.) agency officials believe that the ability to share data would avoid unnecessary duplication of information and effort.**

Agency Oracle Programming - The executive recommends 2.00 FTE and $71,945 each year for agency systems development project management and planning, analysis, design, and programming in an Oracle development environment.

Enterprise Document Management - The executive recommends 1.00 FTE and $138,143 in fiscal 1998 and 1.00 FTE and $63,143 in fiscal 1999. The proposal is to purchase hardware and software in support of agency use of document management technologies.

Enterprise Mid-Tier Support - The executive recommends 1.00 FTE and $218,638 each year for staff support, software, and communications equipment for the enterprise mid-tier computer processing unit.

LFD Comment **- A "mid-tier platform" is a computer processing system appropriate for users who require more capacity than a local area network can provide but need less capacity than a mainframe system provides. ISD is beginning to support users of mid-tier systems. Agency officials say that it will be relatively easy to incorporate the required hardware into the existing system, but that it will be more difficult to provide the personnel necessary to support the mid-tier platform.**

Mainframe Oracle/Processor Upgrade - The executive recommends 1.00 FTE and $35,971 each year to support the cyclical upgrade of the state mainframe computer processor to accommodate growth in service demands.

Capitol Complex Backbone Upgrade - The executive recommends $79,068 each year to upgrade the fiber backbone bandwidth which supports enterprise technologies. The upgrade of the current intelligent wiring hubs and routers will increase the complex backbone bandwidth to 100 Mbps.

Mainframe/Mid-Tier Computer Operator - The executive recommends 1.00 FTE and $28,446 each year for a mainframe and mid-tier computer operator to accommodate growth in service demands. The mainframe computer workload is estimated to increase 85 percent during the 1999 biennium.

LFD Comment **- Agency officials say that mainframe usage is expected to increase by 20 to 30 percent per year, as compared to an 85 percent workload increase for computer operators. The legislature may wish to determine the reason for the huge workload increase.**

Statewide GIS Cadastral Database - The executive recommends 1.00 FTE and $39,160 each year for a geographic information specialist (GIS) to develop a statewide cadastral database that will be utilized by state agencies and local governments. The FTE will coordinate and plan the project with federal, state, and local governments, as well as private sector participants. The development work will be handled through contracted services to be financed under the information technology bond bill proposal.

LFD Comment **- See the LFD comment in the present law adjustment section on GIS developments.**

Public Safety Radio Phase 1 - The Executive Budget adds $325,000 each year to fund consulting services for the physical design and phase 1 implementation of a statewide public safety radio infrastructure. The scope of the design work will be determined based on the consultant effort currently underway to address the public safety radio needs in Montana. Funding is recommended to be 50 percent from the central data processing proprietary account and 50 percent from state special revenue. It is envisioned that a mix of general fund and private contributions may offset some or all of the proprietary funding. This proposal is recommended as a biennial appropriation.

LFD Comment **- The public safety radio program will develop a radio system to allow state and local government officials to communicate with one another and to get information to the public during an emergency.**

Year 2000 Conversion - The executive recommends $329,000 in fiscal 1998 and $287,000 in fiscal 1999 to fund the statewide coordination of the "millennium project." The proposal includes education, work with agencies to develop a schedule for risk assessment, activity planning, acquisition of software, and provisioning of necessary contracted services to address and solve the year 2000 conversion problem.

LFD Issue **- LFD staff recently surveyed other states and found that estimates of year 2000 conversion costs range from $1.5 million to $30 million. ISD officials have said that the budget request of $616,000 for the 1999 biennium is not based on formal costs estimates. It appears that the amount may not be adequate to pay year 2000 conversion costs. Purchase of the new computer systems that ISD is requesting in present law adjustments, new proposals, and the information technology bonding proposal may lower conversion costs, since new computer systems comply with year 2000 requirements. ISD conducted a survey of state agencies to determine what steps agencies are taking to address the year 2000 problem. The legislature may wish to receive the results of the survey before addressing the year 2000 new proposal.**

Agency Computer Acquisition Support - The executive recommends 1.00 FTE and $35,971 each year to assist in the functions of information technology planning and acquisition projects.

Executive Language Recommendation

The executive recommends the following appropriation language:

> "The appropriation in item x for public safety radio phase 1 is a biennial appropriation that may be combined and spent in either year."

LFD Issue **- Because of HB 576, the division no longer receives its funding through a legislative appropriation. The language recommendation is not necessary.**

ACCOUNTING ENTITY:	Number 06528	Name Rent & Maintenance	AGENCY.	Administration	PROGRAM	General Services

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$617,793	$611,199	$2,483	$2,483	$620,276	$613,682	$330,502
Increases							
Rent Fee Office Space	$4,079,493	$4,209,681	$0	$0	$4,079,493	$4,209,681	$3,749,814
Rent Fee Warehouse Space	125,301	125,301	0	0	125,301	125,301	130,878
Revenue	0	0	0	0	0	0	0
Other Increases (Specify)	$677,216	$686,313	$0	$0	$677,216	$686,313	$396,890
General Fund/Cap. Bldg. Fund Cost Recovery							
Decreases							
Personal Services Expenses	($737,090)	($754,867)	$0	$0	($737,090)	($754,867)	($702,843)
Operating Expenses	(4,134,514)	(4,274,087)	0	0	(4,134,514)	(4,274,087)	(3,059,521)
Depreciation/Amortization	(13,000)	(13,000)	0	0	(13,000)	(13,000)	(156,946)
Other Decreases (Comp Absc)	($4,000)	($2,000)	$0	$0	($4,000)	($2,000)	($70,981)
Ending Total Fund Equity	$611,199	$588,540	$2,483	$2,483	$613,682	$591,023	$617,793

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

The revenue objective is to steadily build cash throughout the fiscal year in order to meet the cash outlay of major maintenance and annual inventory replacement costs at fiscal year end After the fiscal year end, the accounting entity should return to a 45 to 60 day cash reserve.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Office Rental Rate	$4 245	$4 37	$4.616	$4 789	
Warehouse Rental Rate	$2.22	$2.22	$2.22	$2 22	

Rate Explanation

Department of Administration - General Services Program

Rent and Maintenance Proprietary Account - General Services provides, through in-house staff and contracted services, repair, maintenance, security and custodial services for buildings in the Capitol complex and several buildings located throughout the Capitol city. The Division manages 26 service contracts for the complex/Capitol city area including mechanical maintenance, janitorial services, security, pest control, elevator maintenance and repair, garbage collection, fire suppression maintenance, recycling, and garbage service. The program also provides professional and technical assistance to agencies outside the Capitol complex (within 10 mile radius). Additionally, the rent and maintenance program allocates space to state agencies and negotiates and approves leases for office space state wide. Rent, on a cost per square foot basis, is assessed each agency occupying space in buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services, operating expenses including major maintenance, and new and replacement equipment. Project work completed for agencies by in-house staff or contracted with an outside vendor is on a cost recovery basis. The methodology in developing these rates has not changed from past biennia.

Rent and Maintenance Expenditures - Direct and indirect costs are anticipated to increase due to the following: 1) Contracted services increases take place throughout the biennium upon expiration of existing contracts (exceeding an average of 3 percent increase per year) and prevailing wage increases impact several of the contracts; 2) Janitorial contracts in fiscal 1997 exceed budgeted amounts by 6 percent as a result of new contracts being awarded in March and July, 1996. This trend is anticipated to continue into the next biennium with contracts inflating a maximum of 10 percent over current pricing; 3) Mechanical contracts are projected to increase by 10 percent in the next contract; 4) Security Protection costs are projected to increase 18 percent. This contract is awarded for a three year period with no increases; 5) Elevator Maintenance costs are projected to increase 24 percent. The contract is awarded for a three year period with no increases. The age of elevators in service continues to increase the cost of this contract; 6) Pest Control services are expected to increase 25 percent. There is little competition for this contract, which contributes to the price; 7) Utilities are anticipated to increase by 3 percent per year for electricity, by approximately 4 percent for natural gas, an 8.8 percent increase in water consumption charges by the

City of Helena, and an 18.5 percent increase in garbage and trash removal due to increased costs for landfill usage and transportation costs.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings and contributed capital are projected to decrease slightly during the 1999 biennium.

Working Capital Reserve - The working capital objective for the rent and maintenance account is to maintain a 60 day reserve. State agencies are billed monthly, in advance and accounts are normally collected within 30-45 days. Reserve requirements will build from July to June of each fiscal year. June requires a high cash reserve as May and June are the months in which most major maintenance projects will be bid and awarded and major inventory and equipment purchases are made. Weather extremes are an important factor in determining cash reserve balance. Accurate utility estimates and their impact can not be made prior to May of each fiscal year. The revenue objective of this fund is to steadily build cash throughout the fiscal year in order to meet the cash outlay of major maintenance and annual inventory replacement costs at fiscal year end. After fiscal year end the fund should return to a 45-60 day cash reserve.

LFD Comment **- Table 6 compares the fiscal 1997 and 1999 biennium square footage rental rates for both types of space maintained by the General Services Division (GSD). The anticipated percentage increase in the rate for office space from fiscal 1996 to fiscal 1999 is 12.82 percent, or an annual average increase of 4.1 percent. Based on annual program expenditures, a 45 to 60 day cash reserve would be between $602,704 and $814,767.**

Table 6
General Services Division
Per Square Footage Rental Rates
1997 and 1999 Biennia

	1997 Biennium Actual Rates		1999 Biennium Proposed Rates		Percent Change From 1997 Biennium to 1999 Biennium
	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	
Office Space	$4.245	$4.370	$4.616	$4.789	12.82%
Warehouse Space	$2.220	$2.220	$2.220	$2.220	0.00%

Executive New Proposals

The new proposal table is not presented for the General Services Program proprietary fund. The concept of individual new proposal adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund fees and charges. However, narrative for new proposals is presented for explanatory purposes.

1) Capitol Complex Security Package - The Executive Budget adds $115,000 each year of the biennium to fund upgrading of perimeter safety lighting on the Capitol complex, installation of entry security in the form of card access software, and door and lock replacement throughout the complex.

2) Recycling Coordinator & Janitorial Oversight - The Executive Budget adds $14,446 and 0.50 FTE each year of the biennium to continue building a recycling program with the goal of generating adequate revenue to cover the cost of the program and the possibility of adding revenue to the general fund.

3) Major Maintenance Contingency Fund - The Executive Budget adds $50,000 each year of the biennium for emergency repairs on the Capitol complex beyond the scope of day-to-day repairs or scheduled long-term maintenance projects. This appropriation also would provide for unanticipated employment-related facility modifications required by the Americans with Disabilities Act (ADA). Authorization to spend this appropriation requires gubernatorial approval, funding to come from the department's cash balance.

4) New Equipment/General Services - The Executive Budget adds $5,000 in fiscal 1999 to purchase a wire-feed welder for repairs to furniture and other equipment and for a pickup dump-box for gravel transportation during parking lot maintenance.

LFD Comment **- The total expenditure increases from present law adjustments and new proposals are $924,596 for fiscal 1998 and $1,029,154 for fiscal 1999. The totals do not count the $250,000 per year major maintenance request that should not have been included in the proprietary fund budget . Expenditures increase over the base year expenditures of $3,635,645 by 25 percent in fiscal 1998 and 28 percent in fiscal 1999. Operational expenses for contracts, utilities, and increased major maintenance account for most of the increases.**

Revenue to support program expenditures comes from the rate increases shown in the rate explanation table. Since the proprietary revenue the program receives is based on the rates it charges other state agencies, any change in rates would affect the budgets of all other state agencies. If the legislature does not agree with new proposals or present law adjustments and does not wish to adjust program rates, it can make its intent known that the agency should use the fund balance to reduce rates in the next biennium.

Program Description

The Mail and Distribution Bureau manages central mail service for state agencies through a non-appropriated proprietary account. The program also manages the post office in the capitol building.

Administration of the program is authorized by 2-17-301, MCA. It operates primarily under state mandates.

Funding

The Mail and Distribution Bureau is funded entirely from proprietary funds derived from the following sources: 1) fixed fees assessed state agencies for sorting and delivery of internal (deadhead) mail; 2) federal funds from the United States Postal Service (USPS) for operation of the capitol post office; 3) postage and shipping costs from state agencies and public users of the capitol post office; 4) administrative fees charged state agencies to cover costs of processing outgoing mail; and 5) refunds from the USPS for qualifying mail.

Performance-Based Budget

The Mail and Distribution Program is one of sixteen state programs participating in a performance-based budgeting (PBB) pilot project. The Executive Budget proposes the following HB 2 language:

> "The appropriation provided for the mail and distribution program is contingent upon funds being used to attempt to achieve program performance targets as outlined in the executive budget for the 1999 biennium. The department shall provide semiannual reports to the office of budget and program planning and the legislative fiscal division on progress towards achievement of these performance targets with explanations for any significant variances."

Goal 1: To develop a pricing structure which stabilizes the program cash flow and provides incentives for agencies to prepare automated mail.

Performance Measures:

1) Retire all program inter-entity loans by the end of fiscal 1999.

2) Base mail processing rates on actual postage plus overhead charges which accurately reflect the processing costs.

3) Increase the ratio of automated to non-automated mail by 30 percent over the biennium through interagency coordination and agency training in mailing list management.

4) Set deadhead mailing rates for the coming biennium to more accurately reflect agency usage and central mail handling costs.

Goal 2: To consistently achieve a high degree of customer satisfaction with the timeliness and quality of mail processing service.

Performance Measures:

1) To increase the automation of incoming mail to improve the accuracy of delivery through interagency coordination and agency training.

2) Achieve a 99 percent level of the following delivery standards based on quarterly mail test samples: incoming mail delivered same day received, deadhead mail delivered within 24 hours of receipt, and automated outgoing mail delivered to the United States Postal Service the same day received unless hold requested by customer.

3) Customer satisfaction ratings from surveys done two times per year must meet acceptable service standards.

LFD Issue - **The objective of performance-based budgeting is to tie changes in the amount of money a program receives to measurable changes in program performance. In this way, should budget makers want to change performance levels, they can know what such changes will cost and adjust future budgets accordingly. The Mail and Distribution program performance targets give no indication of how changes in budget levels would affect performance results and makes no attempt to tie results to funding amounts. The performance targets give the legislature no good way to determine how to adjust the program budget.**

In addition, the performance measures generally do not include target results that can be measured, making it difficult to determine if the program has met acceptable performance levels.

ACCOUNTING ENTITY:	Number 06523	Name Mail Processing	AGENCY:	Administration	PROGRAM:	Mail & Distribution

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$570,082	$543,269	$0	$0	$570,082	$543,269	$660,879
Increases							
Postage Recovery	$3,574,712	$3,681,568	$0	$0	$3,574,712	$3,681,568	$3,361,874
Deadhead	159,417	159,417	0	0	159,417	159,417	160,000
Postal Contract	38,976	38,976	0	0	38,976	38,976	38,976
Value Added Refund	60,000	60,000	0	0	60,000	60,000	60,000
Decreases							
Personal Services Expenses	($349,529)	($357,968)	$0	$0	($349,529)	($357,968)	($323,372)
Operating Expenses	(3,395,776)	(3,492,444)	0	0	(3,395,776)	(3,492,444)	(3,270,126)
Depreciation/Amortization	0	0	0	0	0	0	0
Equipment	(66,400)	(32,000)	0	0	(66,400)	(32,000)	(35,500)
Debt Service	(48,213)	0	0	0	0	0	0
Other Decreases (Specify)	$0	$0	$0	$0	($48,213)	$0	($82,649)
Ending Total Fund Equity	$543,269	$600,818	$0	$0	$543,269	$600,818	$570,082

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

The working capital objective for the program is to maintain a cash reserve of 45 working days. Most agencies are billed monthly and accounts are collected within 30 to 60 days Large accounts make quarterly advance deposits to help manage cash flow. The payment of postage to the federal postal service in advance of the billing cycle results in inadequate cash reserves that, at times, create requests for loans from the general fund

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Mail processing overhead rate	10 %	5 %	8 %	8 %	
Deadhead (messenger) rate per unit	$0.07	$0.07	$0.07	$0.07	
UPS rate	10 %	0 %	0 %	0 %	

Rate Explanation

Department of Administration - Mail and Distribution Bureau

Mail and Distribution Account - The Mail and Distribution Program provides qualified mail room staff to operate a centralized mailing operation. Services provided by the program include: 1) Mail pick-up and delivery in agencies' offices; 2) metering of all out-going U.S. mail; 3) bar coding qualified mailings to qualify for maximum postal savings; 4) delivery of all inter-agency printed communications known as "Deadhead Mail"; 5) providing a Postal Contract Station with locked mail boxes; 6) providing United Parcel Service (UPS) to agencies; and 7) providing Express Mail Service.

The department assesses users an administrative fee plus actual postage to cover the cost of processing out-going mail. This includes pre-sorting, bar coding, metering and transporting mail to the federal post office. This also covers the cost of sorting and delivering incoming U.S. mail.

Rent and Maintenance Expenditures - The projected 1999 biennium expenditure increases for direct and indirect costs are a result of the following: 1) Inflationary increases of over 3 percent in the present law base for personal service as a result of implementing a career ladder structure in fiscal 1996 which allows for grade increases when employees achieve certain standards. This was implemented as a part of the program participation in the performance-based budgeting pilot in the 1997 biennium; 2) increases for general liability coverage for employees and the addition of vehicle coverage for two cargo vans; 3) the installation of the JetStar Bar Coder and additional mail processing equipment to handle an increased volume of mail has resulted in specialized supplies and materials being purchased to operate the equipment; and 4) anticipated increases of 3 percent in communications during the 1999 biennium.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to decrease slightly during fiscal 1998 and then increase during fiscal 1999. This is primarily due to a reduction in debt service for purchase of the JetStar Bar Coder, in fiscal 1999.

Working Capital Reserve - Most agencies are billed monthly in arrears, with accounts normally collected within 30-60 days. Large accounts make quarterly advance deposits to help manage cash flow. Ideally, a cash reserve of 45 working days is desired for this program. However, payment of postage to the federal post office in advance of the billing cycle leaves this program without adequate cash reserve. The inadequate cash reserve, ultimately, results in requests for loans from the general fund. Deadhead rates are billed annually in advance. Deadhead mail does not affect the program cash reserve requirement.

Executive Present Law

The present law table is not presented for the Central Mail Program proprietary fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund fees and charges. However, narrative for significant present law adjustments is presented for explanatory purposes.

4) Mail Processing Equipment - The Executive Budget adds $36,780 in fiscal 1998 and $32,200 in fiscal 1999 to replace mail processing equipment that has exceeded its recommended output by several million pieces, the purchase of heavy-duty wheeled carts for safe transfer of mail delivery in office buildings, and the upgrading of a computer work station.

5) Debt Service - The Executive Budget decreases by $34,436 in fiscal 1998 and $82,649 in fiscal 1999 due to completion of the payments on the JetStar Bar Coder equipment.

Executive New Proposals

The new proposal table is not presented for the Central Mail Program proprietary fund. The concept of individual new proposal adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund fees and charges. However, narrative for new proposals is presented for explanatory purposes.

1) New Cargo Van/Central Mail - The executive adds $29,620 for a van which can sufficiently accommodate the large volume and weight of processed mail. Funding is 100 percent proprietary.

2) Administrative Support - The executive recommends adding $18,713 each year of the biennium for administrative support, in the form of contracted services, to accommodate the large volume of incoming calls, major mailings, and agency mail consultations. Funding is 100 percent proprietary.

ACCOUNTING ENTITY:	Number 6525	Name Training	AGENCY:	Administration	PROGRAM:	State Personnel
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$11,346	$21,367	$1,036	$1,036	$12,382	$22,403
Increases						
Revenue:	$244,128	$251,080	$0	$0	$244,128	$251,080
Revenue:	0	0	0	0	0	0
Revenue:	0	0	0	0	0	0
Decreases						
Personal Services Expenses	($126,333)	($130,123)	$0	$0	($126,333)	($130,123)
Operating Expenses	(105,374)	(108,535)	0	0	(105,374)	(108,535)
Depreciation/Amortization	(2,400)	(2,400)	0	0	(2,400)	(2,400)
Ending Total Fund Equity	$21,367	$31,389	$1,036	$1,036	$22,403	$32,425

Rate Explanation

Department of Administration - State Personnel Division

Professional Development Center - The Professional Development Center (PDC)provides a variety of training products and facilitation services to state agencies on a fee reimbursement basis. About 1 percent of revenue comes from the sale of guidebooks and other training materials.

Demand for services has historically been measured by the number of participants served. This measure is quite variable and difficult to predict from quarter to quarter. Total participants served in fiscal 1994 were 3,895, in fiscal 1995 were 3,754. Projections for fiscal 1996 are at a similar level. The services offered by PDC are changing with the emphasis moving away from open enrollment classes to contract classes that are developed and provided for a single organization or unit. Other courses are being prepared in video format. These changes are resulting in more intensive training to each participant, requiring more staff time for development and presentation. It is projected that the number of participants served will remain relatively constant in fiscal 1997 and fiscal 1999.

Rates - Rates are established by separating fixed costs or overhead from those variable costs directly associated with a specific workshop or service. The total projected fixed costs are divided by an estimate of total billable hours to allocate fixed costs to billable staff hours.

Billable hours for the 3.00 FTE in the program are estimated based on an analysis of past fiscal years. General preparation time, planning, supervisory/administrative tasks, personal leave, and unbilled travel time are subtracted from the total available hours. This analysis indicates that 62 percent of total staff time can be billed to specific products or services.

An analysis of expenditures indicates that 30 percent of total costs can be associated with specific products or service. The remaining 70 percent are personal services and other fixed costs that must be allocated through staff time.

The base price for services is calculated as:

(Total Costs x 70%)/(Total Hours x 62%) = Staff Cost per Hour

For fiscal 1995 the staff cost per hour was projected as:

($193,876 x .70)/(6240 x .62) = $35/hour

This base price is used to set the price of individual workshops by estimating the staff time required to develop and provide the workshop and the other variable costs (printing, room rent, travel) associated with conducting the training.

The base price is also used to set a general schedule of prices where staff time and variable expenses can be consistently projected.

The base price For fiscal 1998 and fiscal 1999 are projected as:

FY98 ($244,128 x .70)/(6240 x .62) = $44.17/hour

FY99 ($251,080 x .70)/(6240 x .62) = $45.43/hour

Expenditures

	FY96	FY97	FY98	FY99
Personnel Services	121,865(1)	122,653(2)	126,333	130,123
Operating	100,101(2)	102,305(2)	105,374	108,535
Equipment	6,890			
Total	228,856	224,958	231,707	238,658

(1) Projected actual
(2) Appropriated actual

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to increase slightly during the biennium.

Working Capital Reserve - Working capital is projected to be $14,388 at the end of fiscal 1996. This amount is expected to remain unchanged through fiscal 1997. Revenue will have to exceed expenditures in fiscal 1998 and fiscal 1999 by $12,421 each year to return to a 60 day working capital reserve of $39,231. This results in projected revenue of $244,128 in fiscal 1998 and $251,080 in fiscal 1999.

LFD Issue **- The Professional Development Center competes with similar training programs in the private sector. Agency officials indicate that because of this, state agencies that use the center are very sensitive to the prices. The program plans to increase its rates over base year rates by 26 percent in fiscal 1998 and by 30 percent in fiscal 1999. Unless the center can increase demand by offering new or better services, the price increases could drive away enough users to offset the price increase. Annual revenue could well decrease, instead of increasing as agency personnel have predicted. (Note that these revenue predictions are based on the amount of revenue necessary to have a 60-day working capital fund balance, not on estimates of use.)**

ACCOUNTING ENTITY:	Number 6559	Name Group Benefits Claims A/E	AGENCY:	Administration	PROGRAM:	State Personnel
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$22,386,313	$19,373,296	$0	$0	$22,386,313	$19,373,296
Increases						
Revenue State Contribution	$31,690,505	$34,876,505	$0	$0	$31,690,505	$34,876,505
Employee Contribution	5,838,026	5,838,026	0	0	5,838,026	5,838,026
Early Retirees-Medical	3,539,124	4,046,544	0	0	3,539,124	4,046,544
Early Retirees-Dental	243,356	254,318	0	0	243,356	254,318
Medicare Retirees-Medical	5,097,523	6,077,203	0	0	5,097,523	6,077,203
Medicare Retirees-Dental	206,819	217,788	0	0	206,819	217,788
COBRA-Medical	401,787	440,187	0	0	401,787	440,187
COBRA-Dental	23,524	23,524	0	0	23,524	23,524
Interest Income	1,018,527	874,669	0	0	1,018,527	874,669
Decreases						
Managed Care	($317,905)	($335,667)	$0	$0	($317,905)	($335,667)
Health Screenings	(68,944)	(73,210)	0	0	(68,944)	(73,210)
Vision Premiums	(176,564)	(187,282)	0	0	(176,564)	(187,282)
Life Insurance Premiums	(1,695,012)	(1,716,180)	0	0	(1,695,012)	(1,716,180)
EAP Fees	(331,267)	(348,083)	0	0	(331,267)	(348,083)
Medical Claims Costs	(42,358,496)	(46,318,145)	0	0	(42,358,496)	(46,318,145)
Dental Claims Costs	(4,607,474)	(5,037,875)	0	0	(4,607,474)	(5,037,875)
Administrative Expenses	(845,825)	(898,952)	0	0	(845,825)	(898,952)
Operating Expenses	(598,095)	(616,038)	0	0	(598,095)	(616,038)
Miscellaneous Expenses	(72,626)	(2,500)	0	0	(72,626)	(2,500)
Ending Total Fund Equity	$19,373,296	$16,488,128	$0	$0	$19,373,296	$16,488,128
Less IBNR/Fluctation Reserves	($16,813,817)	($15,817,654)			($16,813,817)	($15,817,654)
Premium Stabilization Reserve	$2,559,479	$670,474			$2,559,479	$670,474

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Revenue: State Contribution	$218.67	$223.67	$248.67	$273.67	
Employee Contribution	$45.81	$45.81	$45.81	$45.81	
Early Retirees-Medical	$235.70	$240.70	$265.70	$290.70	
Early Retirees-Dental	$18.27	$18.27	$18.27	$18.27	
Medicare Retirees-Medical	$167.12	$172.12	$197.12	$222.12	
Medicare Retirees-Dental	$16.62	$16.62	16.62	$16.62	
COBRA-Medical	$231.58	$236.58	$261.58	$286.58	
COBRA-Dental	$20.42	$20.42	$20.42	$20.42	
Interest Income	$7.72	$7.05	$6.06	$5.14	

Rate Explanation

Department of Administration - State Personnel Division

Employee Benefits Account - The Employee Benefits Program provides a variety of insurance products for state employees, retirees, and their dependents. About 30,000 individuals are insured. Funding for the insurance comes from paid premiums. For active employees, premiums for employee-only coverage, and an additional $13.40, are provided through a contribution from their employer.

State contribution to employee insurance coverage:

	Fiscal Year	Monthly Contribution	% Increase from Previous Year
	FY92	$170	
	FY93	$190	11.8%
	FY94	$210	10.5%
	FY95	$230	9.5%
	FY96	$220	(4.3%)
	FY97	$225	2.3%
Projected:	FY98	$250	11.1%
Projected:	FY99	$275	10.0%

Average annual increase FY92 - FY99=8.8%
Average annual increase FY95 - FY99=4.9%
Average annual increase FY95 - FY98=2.9%

Operating Expenditures - Operating expenses, those incurred directly by the Employee Benefits Bureau, account for only about $3.00 of the monthly premium and do not materially impact the need for premium increases. The most significant cost impact is from medical claims which make up over 82 percent of total plan costs.

LFD Comment **- The Personnel Division's plan to participate in an insurance buyer's pool with other large insurance customers in the state could lower the cost of medical claims in the future.**

Retained Earnings and Contributes Capital - As shown in Schedule 1, fund balance is projected to continue to decrease during the biennium.

Working Capital Reserve - State contribution is set by projecting plan costs and estimating the revenue necessary to maintain adequate actuarial reserves. Reserves are calculated as a percentage of claims and are made up of two components: IBNR (Incurred but not reported) reserves and claims fluctuation reserves. The level of claims fluctuation reserves is increased in the second year of the biennium due to the length of time between premium projections.

LFD Comment **- The Executive is proposing the increase in premium contributions as a part of the executive pay plan. Funding for the increases, which totals about $12.0 million over the biennium, are included in the pay plan legislation. The executive does not provide the information necessary for the legislature to examine the requested increases.**

ACCOUNTING ENTITY:	Number 6563	Name State Payroll	AGENCY:	Administration	PROGRAM:	State Personnel	
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	($118,527)	($71,934)	$107,484	$107,484	($11,043)	$35,550	$0
Increases							
Revenue	$595,182	$611,548	$0	$0	$595,182	$611,548	$566,011
Revenue	0	0	0	0	0	0	0
Revenue	0	0	0	0	0	0	0
Decreases							
Personal Services Expenses	($180,568)	($185,985)	$0	$0	($180,568)	($185,985)	($175,309)
Operating Expenses	(364,943)	(375,891)	0	0	(364,943)	(375,891)	(353,363)
Depreciation/Amortization	(3,078)	(4,577)	0	0	(3,078)	(4,577)	0
Ending Total Fund Equity	($71,934)	($26,839)	$107,484	$107,484	$35,550	$80,645	

Rate Explanation

Department of Administration - State Personnel Division

State Payroll Account - State Payroll provides for preparation and distribution of payroll and associated withholding and deductions for 11,500 state employees in the Executive, Legislative, and Judicial branches; and operation of the state's payroll, personnel record keeping, and personal services budgeting system (PPP). PPP is an integrated data base system used for the data storage, reporting and analysis in support of all aspects of state personnel management activities.

Funding - State Payroll is funded through an internal services fund. Each agency is budgeted and billed for their share of the budget based on a projected number of employees paid. The number paid is determined from experience in fiscal 1995 and fiscal 1996.

Projected Expenditures

	FY96	FY97	FY98	FY99
Personal Services	168,669	175,309	180,568	185,985
Operating Expenses	366,523	354,313	364,943	375,891
Equipment	1,862		5,000	5,000
Total	537,054	529,622	550,511	566,876

The budget for fiscal 1998 and fiscal 1999 is based on fiscal 1996 expenses. Inflation of 3 percent was assumed for most objects of expenditure.

Working Capital Reserve - Fees will be billed and collected at the beginning of each fiscal year. The budgeting and spending objective is to operate on a break even basis and maintain a 60 day cash reserve.

Executive Present Law

The present law table is not presented for the proprietary fund accounts in the State Personnel Division Program. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund premiums and charges. However, narrative for significant present law adjustments is presented for explanatory purposes.

P/P/P System Enhancement - The executive recommends $80,000 each year to continue interim improvement to and maintenance of the state Payroll/Position Control/Personnel System (P/P/P). While the MT PRIME project is addressing replacement of this system, the proposal would maintain the system's functional utility until a replacement system is fully implemented. Funding will be provided by the State Personnel Division proprietary fund account.

Printing - The executive recommends an increase of $23,480 in fiscal 1998 for the biennial cost of reprinting the benefits booklet and to restore the printing budget for the Professional Development Center (PDC) to the approved amounts in the 1997 biennium. The increase of $9,480 in fiscal 1999 continues the restored budget level for the PDC.

Replacement Equipment - Replacement personal computers are recommended in the amount of $9,120 each year. The Employee Benefits Program and the State Payroll Program each will replace two personal computers per year.

Executive New Proposals

The new proposal table is not presented for the State Personnel Division proprietary fund. The concept of individual new proposal adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund fees and charges. However, narrative for new proposals is presented for explanatory purposes.

1) Administrative Support Position - The Executive Budget adds $10,247 each year of the biennium for 0.42 FTE administrative support due to an increase in the volume of Employee Benefit Plan services. This will increase the current 0.58 FTE position to 1.00 FTE. Funding is 100 percent proprietary.

Program Description

The Risk Management and Tort Defense Program (RMTD) provides for the investigation, defense, and payment of bodily injury and property damage claims incurred by all agencies, officers, and employees of the State of Montana. The division also assesses the fire, casualty, bond, and liability risks of the state for all state-owned buildings, equipment, automobiles, fixtures, boilers, aircraft, cash, and securities, and provides either commercial or self-insurance protection for the financial loss of such property.

The RMTD program operates under statutory mandates pursuant to Title 2, Chapter 9, parts 1 through 3, MCA, and 2-9-202, MCA.

Funding

The Risk Management and Tort Defense Division is funded by proprietary funds derived from insurance premiums paid by state agencies. The amount the division charges each state agencies is based on a calculation of that agency's exposure to liability.

ACCOUNTING ENTITY:	Number 06532	Name Agency Insurance	AGENCY:	Administration	PROGRAM	Risk Management & Tort Defense

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$5,305,232	$3,229,494	$2,801	$2,801	$5,308,033	$3,232,295
Increases						
Revenue: Premiums Charged	$6,238,882	$6,483,558	$0	$0	$6,238,882	$6,483,558
Revenue: Investment Earnings	431,518	461,748	0	0	431,518	461,748
Revenue: Insurance Proceeds	183,879	204,776	0	0	183,879	204,776
Revenue: Non-Budgeted	39,921	25,886	0	0	39,921	25,886
Decreases						
Personal Services Expenses	($475,024)	($489,274)	$0	$0	($475,024)	($489,274)
Operating Expenses	(1,748,585)	(1,801,160)	0	0	(1,748,585)	(1,801,160)
Commercial Insurance Premiums	(951,677)	(951,677)	0	0	(951,677)	(951,677)
Other Decreases (Specify)						
Claims	($5,794,652)	($5,805,041)	$0	$0	($5,794,652)	($5,805,041)
Ending Total Fund Equity	$3,229,494	$1,358,310	$2,801	$2,801	$3,232,295	$1,361,111

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
General Liability	$3,182,737	$3,182,752	$3,652,229	$3,834,842	2-9-202, MCA
Auto Liability	1,410,678	1,410,678	1,185,160	1,244,419	2-9-202, MCA
Property	992,202	1,075,499	1,104,121	1,104,121	2-9-202, MCA
Airport/Aircraft	115,355	125,217	126,254	126,254	2-9-202, MCA
All Other Lines	159,375	151,834	171,118	173,922	2-9-202, MCA
Total Fees Charged	$5,860,347	$5,945,980	$6,238,882	$6,483,558	

Risk Management and Tort Defense
Estimated Fund Balances
FY 96 - FY 99

Source		FY 96	FY 97	FY 98	FY 99
	Prior Year Ending Balance	$6,466,409	$6,385,594	$5,305,232	$3,229,494
	Prior Year Adjustments				
	Adjusted Beginning Balance	$6,466,409	$6,385,594	$5,305,232	$3,229,494
	Revenues				
(1)	Gen Liab/Vehicle Premiums	$4,593,415	$4,593,430	$4,837,389	$5,079,261
(2)	Other Lines of Insurance	1,266,932	1,352,550	1,401,493	1,404,297
	Subtotal: Premium Charged	$5,860,347	$5,945,980	$6,238,882	$6,483,558
(3)	Investment Earnings	$523,044	$409,046	$431,518	$461,748
(4)	Insurance Proceeds	89,979	158,245	183,879	204,776
(5)	Non-Budgeted Revenues	22,556	36,747	39,921	25,886
	Total Revenues	$6,495,926	$6,550,018	$6,894,200	$7,175,968
	Expenditures				
(6)	General/Liability Vehicle	$3,200,000	$4,000,000	$5,400,000	$5,400,000
(7)	Property Deductible	99,137	216,726	210,773	200,265
(8)	Commercially Covered Loss	89,979	158,245	183,879	204,776
	Subtotal: Statutory Authority	3,389,116	4,374,971	5,794,652	5,805,041
(9)	Personal Services/Operations	$2,234,730	$2,158,735	$2,223,609	$2,290,434
(10)	Commercial Insurance Prem.	949,050	1,093,250	951,677	951,677
(11)	Non-Budgeted Depreciation	3,845	3,424	0	0
	Subtotal: Legislative Authority	3,187,625	3,255,409	3,175,286	3,242,111
	Total Expenditures	$6,576,741	$7,630,380	$8,969,938	$9,047,152
	Ending Balance	$6,385,594	$5,305,232	$3,229,494	$1,358,310
	Annual Increase (Decrease)	($80,815)	($1,080,362)	($2,075,738)	($1,871,184)

(1) (2) FY 96 Actual billing totals. FY 97 is the amount already approved and put in agency budgets.
(3) Four year average of income.
(4) Five year average.
(5) Four year average.
(6) FY 96 & 97 are based on analysis of average general and auto liability claims and lawsuits over the past nine years. FY 98 & 99 are based on having our worst loss year (FY87) back to back, which is consistent with our funding objective.
(7) Five year average.
(8) Same numbers used for commercial insurance proceeds, Note 4, as this money just passes through our fund on its way to vendors.
(9) FY 96 is actual numbers through 3/96 and annualized to FYE. FY 97 is what was budgeted. FY98 & 99 are FY 97 budgeted then increased by 3% per year, except mainframe processing rates and data network rates, which were adjusted from FY 97 budget at 5% per year as required in budget instructions. This number does not include commercial insurance premiums (O/E 2104); which is shown on the next line.
(10) Commerical Insurance Premiums are shown as what is to be billed to the agencies for commercial policies; as these amounts should just pass through our fund.
(11) FY 96 is actual equipment expenditures, FY 97 is estimated based on average equipment expentitures of the 2 prior years. FY 98 and 99 would be depreciation expense; however, RMTD does not plan any equipment purchases that would require depreciation.

Rate Explanation

Department of Administration - Risk Management and Tort Defense

Agency Insurance Internal Service Fund - The state self-insurance fund is a proprietary fund. As provided in 2-9-202, MCA, the Department of Administration is authorized to accumulate a self-insurance fund to pay for self-insured losses, to purchase insurance, and to fund operations. Payments into the self-insurance reserve fund are made from a legislative appropriation. Funding for insurance is authorized by the legislature each biennium in accordance with 17-7-501, MCA. Proceeds from the self-insurance fund are statutorily appropriated for the payment of property/casualty claims.

The Division of Risk Management and Tort Defense funding objective is to maintain insurance rates sufficient to sustain consecutive 'worst year' loss experience of $5.4 million over fiscal 1998 and fiscal 1999. Fiscal 1987 remains the single 'worst loss' year since the inception of the self-insurance fund. It should be noted that the $5.4 million 'worst case' estimates were not inflated to fiscal 1998 and fiscal 1999 dollars. The State of Montana has tort damage caps of $750,000 per claim, $1,500,000 per occurrence. Because the state performs diverse and high risk functions, three or four large, catastrophic claims in any given year could drive the self-insurance fund balance to zero.

The Risk Management & Tort Defense Division proposes the following increases for fiscal 1998 and fiscal 1999 insurance:

	Insurance Line	Fiscal 1998 (Inc. from Fiscal 1996)	Fiscal 1999 (Inc. from Fiscal 1998)
1)	Gen./Veh. Liability (combined)	5.31%	5.00%
2)	Property Insurance	11.28%	0.00%
3)	Aviation (aircraft)	10.00%	0.00%
4)	Airport	5.00%	0.00%
5)	Other Commercial Risks	5.00%	0.00%

The proposed increases in liability insurance are necessary to fund an ever-increasing number of tort claims and to cover costs associated with defense and litigation. The department also anticipates that significant increases in re-insurance costs will have a ripple effect throughout the property/casualty insurance industry, resulting in the 5 percent to 10 percent increases in the costs of the state's property, aviation, and other commercial risks above and beyond fiscal 1996 actual insurance costs.

The net effect of premium increases is an overall rate increase of 6.27 percent for fiscal 1998 (above fiscal 1996) and 3.93 percent for fiscal 1999 (above fiscal 1998 budgeted).

The methodology for developing the proposed rates for fiscal 1998 and fiscal 1999 is as follows:

Liability: The combined automobile and general liability premium of $4,837,389 for fiscal 1998 is a 5.31 percent increase over the combined premiums of $4,593,415 billed for fiscal 1996. The combined premium of $5,079,261 for fiscal 1999 is a 5 percent increase over the fiscal 1998 combined premium. For fiscal 1998 and fiscal 1999, 24.5 percent of the total premium is budgeted for automobile liability and the remainder for general liability.

General Liability: The base rate for general liability differs per agency based primarily on prior loss history. These determinations were made by an actuarial study. The general liability premium budgeted for fiscal 1998 is $3,652,229 and is allocated using actual FTE figures for the Montana University System and authorized FTEs for all non-university agencies. The general liability premium budgeted for fiscal 1999 is $3,834,842 and is allocated using the same method as for fiscal 1998.

Automobile Liability: The base rate for automobile liability for state-owned vehicles differs per agency based primarily on prior loss history. These determinations were made by an actuarial study. The automobile liability premium budgeted for fiscal 1998 is $1,185,160 and is allocated based upon vehicles reported on the May 1995 source data report. The automobile liability premium budgeted for fiscal 1999 is $1,244,419 and is allocated based upon vehicles reported on the April 1996 source data report.

Leased Automobiles: Liability rates differ per agency, based upon the same rate matrix used for owned vehicles. Collision/comprehensive rates are 3 percent of the April 1 market value at the start of the use period as determined from the National Automobile Dealers Association (NADA) books. Fiscal 1998 budget amounts are based upon the reported exposure from April 1, 1995, to April 1, 1996, and market values as of April 1, 1995. Fiscal 1999 budget amounts are based upon all leased vehicles in use as of April 1, 1996, being utilized to April 1, 1997, and market values as of April 1, 1996.

Fidelity Bond: The fidelity bond premium budgeted for fiscal 1998 is $15,390 (a 5 percent increase over the fiscal 1996 premium of $14,658) and is allocated using "Class A" employees as reported in the May 1995 source data report. "All other" employees is calculated by subtracting the "class A" employees from the total FTEs used for the general liability allocations. The fidelity bond premium budgeted for fiscal 1999 is also $15,390 and is allocated using "Class A" employees as reported in the April 1996 source data report.

Buildings and Contents: State properties are commercially insured with high deductibles ($250,000 for the prison, $150,000 for all other). State properties are insured under two distinct policies, separating "university" from "non-university" properties. Included with the university properties are the building and contents of the Capitol complex. The non-university policy also provides property and loss of income coverages for the Broadwater Dam at Toston. Agency allocations are made proportionately, based upon the property values on record as of May 23, 1996. The deductible reserve portion of the premium is based upon each agency's percentage of value to the total value. Commercial premium amounts are based upon each agency's percentage of value to the total value of their group (university or non-university). Fiscal 1998 and fiscal 1999 budgeting was based upon a 10 percent increase to the actual premiums charged for the July 1, 1995, to July 1, 1996, policy term, plus an additional amount to maintain the deductible reserve fund at a pre-determined balance.

Boilers: Boilers are commercially insured and the fiscal 1998 budget amount of $17,861 is based upon a 5 percent increase to the $17,010 premium charged for the fiscal 1996 policy term. The allocation was based upon a flat rate per boiler. The fiscal 1999 budget involves no increase from the fiscal 1998 budget.

Fine Arts: Fine Arts are commercially insured and the fiscal 1998 budgeted of $39,664 is based upon a 5 percent increase to the $37,775 premium charged for the fiscal 1996 policy term. Each agency's allocation is in the same proportion as the amounts billed in fiscal 1996. The fiscal 1999 budget involves no increase from the fiscal 1998 budget.

Aircraft & Airports: Aircraft, rotorcraft, and airports are commercially insured and the fiscal 1998 budgeting was based upon increases to the actual premiums charged for the July 1, 1995, to July 1, 1996, policy term. The fiscal 1999 budget involves no increase from the fiscal 1998 budget. The airport premium budget for each year of the biennium of $13,367 is an increase of 5 percent over the fiscal 1996 premium of $12,730. The fixed wing budget for each year of the biennium of $29,780 is an increase of 10 percent over the fiscal 1996 premium of $27,074 ($24,818 for August 1, 1995 - July 1, 1996 annualized). The rotorcraft budget for fiscal 1998 and fiscal 1999 of $83,107 is an increase of 10 percent over the fiscal 1996 premium of $75,551 ($69,255 for August 1, 1995, to July 1, 1996, annualized).

Other Insurance: Foster child liability programs are self-insured with $18,000 budgeted during each year of the biennium. This is the same as the fiscal 1996 premium. The retail liquor program was discontinued July 1, 1995, so no premiums are budgeted for fiscal 1998 or fiscal 1999. The commercial business auto policy for the Department of Public Health and Human Services vehicles is budgeted at $11,538 each year of the biennium, a 5 percent increase over the $10,989 premium

charged for the July 1, 1995, to July 1, 1996, policy term. The commercial policy for the Office of Public Instruction Motorcycle Training Program is budgeted at $5,246 during each year of the biennium, a 5 percent increase to the amount budgeted for fiscal 1996.

Retained Earnings and Contributed Capital - In Schedule 1, net retained earnings and contributed capital are projected to decrease during the 1999 biennium. Anticipated payment of claims totaling $5,794,652 in fiscal 1998 and $5,805,041 are the primary reason for the decrease in retained earnings and contributed capital.

LFD Comment **- The "anticipated payment of claims" includes $5.4 million each year for general liability and vehicle claims. The $5.4 million per year is not the amount that RMTD actually believes it will pay out - it is the amount actuaries believe is an appropriate reserve for an insurance fund. The reserve recommendation is based on the idea of "consecutive worst year losses." Fiscal 1987 was the "worst loss" year since the inception of the self-insurance fund - the fund paid out more in claims that year than in any year before or since. The desired insurance fund reserve is the amount the fund would need to pay claims equal to those paid in fiscal 1987 for two consecutive years.**

Working Capital Reserve - The state self-insurance fund for tort claims is authorized to maintain additional reserves for all reported claims which may be pending adjudication or payment at the end of the biennium based upon historical experience and "worst case" loss estimates.

LFD Comment **- The largest increases (11.28 percent for property insurance and 10 percent for aircraft insurance) come in those insurance lines for which RMTD buys commercial insurance and are the result of increases in commercial insurance premiums. RMTD's self-insured insurance lines show more modest increases.**

Executive Present Law

The present law table is not presented for the RMTD Program proprietary fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund premiums and charges. However, narrative for significant present law adjustments is presented for explanatory purposes.

1) Legal Staff - The Executive Budget adds $20,029 each year of the biennium for contracted adjuster, appraisal, and actuarial services. The number of claims filed against the state as demonstrated a sharp a sharp rise which is anticipated to continue and actuarial reports and property appraisal services will be provided annually vice every two years.

2) Replacement Equipment - The Executive Budget decreases by $32,438 each year of the biennium due to reduced requirement for replacement equipment.

ACCOUNTING ENTITY:	Number 06541	Name Capitol Grounds Maint.	AGENCY:	Fish, Wildlife & Parks	PROGRAM:	Parks
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$1,781	$6,461	$5,000	$5,000	$6,781	$11,461
Increases						
Total Revenue	$295,000	$295,000	$0	$0	$295,000	$295,000
Decreases						
Personal Services Eexpenses	($69,483)	($71,220)	$0	$0	($69,483)	($71,220)
Operating Expenses	(220,337)	(220,163)	0	0	(220,337)	(220,163)
Comp. Absense Adjust	(500)	(500)	0	0	(500)	(500)
Depreciation	0	0	0	0	0	0
Ending Total Fund Equity	$6,461	$9,578	$5,000	$5,000	$11,461	$14,578

Rate Explanation

Department of Fish, Wildlife, and Parks - Parks Division

The Parks Division is responsible for the Capitol Grounds Maintenance Program.

The total annual cost of the capitol grounds maintenance is allocated to state agencies based on their square footage of office space on the Capitol complex which is rented from Department of Administration, General Services Division.

Historical and Projected Demand for Service

Capitol grounds unit of service is the grounds maintenance and snow removal on the Capitol complex. The unit price is the total annual revenue of the program divided by the total square footage of rented office space on the Capitol complex. Square footage of rented office space on the Capitol complex for the 1999 biennium is provided by General Services Division and used in the calculations. The summary of costs billed to agencies and per unit costs for fiscal 1994 through fiscal 1999 are as follows:

	FY94	FY95	FY96	FY97	FY98	FY99
Revenue	$264,583	$266,068	$265,338	$263,768	$295,000	$295,000
Per Sq. Ft.	$.3141	$.3169	$.3129	$.3111	$.3446	$.3446
Per Sq. Ft. if general fund is continued at $11,000/yr.					$.3317	$.3317

Revenue Objective - The objective of this fund is to recover, through rates assessed to state agencies, sufficient funds to recover personal services, operations, and equipment costs and maintain minimum working capital balances associated with the maintaining the complex.

Projected 1999 Biennium Expenses

Projected base personal services expenditures reflect a 2.5 percent increase per year, from fiscal 1997 budgeted levels, to cover pay plan increases. The projected personal services expenditures also reflect a vacancy savings rate of 4 percent which is consistent with personal services funding levels for the 1997 biennium.

Projected base operations expenditures reflect a 3 percent increase per year, from 1997, for inflation. However, contracted services for both fiscal 1998 and fiscal 1999 are requested at 2.5 percent over the fiscal 1997 budget amounts.

There are no costs drivers in excess of the 3 percent trend factor.

Indirect costs associated with administration of the program are recovered through the assessment of an indirect cost rate on actual expenditures. Quarterly, all accounts managed by the department are assessed a charge for indirect costs based on a method approved by the 1993 legislature. The indirect cost rate calculation is based on principles similar to those used to determine the federally-approved rate for indirect costs charged to federal grants and contracts administered by the department.

There is a request to replace an aged sweeper for $27,407.

Other Revenues - There are no other revenues for the 1999 biennium; however, $11,000 of general fund per year was included in the 1997 biennium budget. If general fund were to be continued at $11,000 per year the rate would be $.3317 per square foot.

LFD Comment **- Due to changes enacted by HB 576, the legislature must set the rate charged to agencies within the Capitol Complex for ground maintenance and snow removal.**

The 1995 legislature appropriated $11,000 general fund each fiscal year of the 1997 biennium to pay a portion of the prevailing wage rates of Capitol grounds workers. Fiscal 1996 expenditures of $10,978 general fund are being requested each fiscal year in other portions of the Parks Division's budget (HB 2) and are not in this proprietary-funded program. The rate being charged agencies for fiscal years 1998 and 1999 was set to raise this additional $11,000 revenue each fiscal year. If this money will be raised by and spent in this program, the general fund request in the Parks Division's operating budget should be reduced by $10,978 general fund each fiscal year.

The rate charged agencies is set so that $11,729 more will be collected over the 1999 biennium than is expected to be spent. The proposed operating budget includes: 1) built-in operating increases of 3.0 percent each fiscal year; 2) pay raises of 2.5 percent each fiscal year; and 3) reductions in personal services due to an expected vacancy savings rate of 4.0 percent.

The department has requested $112,500 each fiscal year of the 1999 biennium in HB 5 (long-range building) for Capitol Complex irrigation work. The funding source for this request is income from the Capitol land grant trust, which is over-appropriated in the Executive Budget. Although rates charged to agencies would increase nearly 85 percent, a proper funding source for this project, if approved by the legislature, would be through the Capitol grounds maintenance rate structure.

ACCOUNTING ENTITY:	Number 06501	Name Duplicating Center	AGENCY:	Fish, Wildlife & Parks	PROGRAM:	Admin. & Finance

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$20,942	$17,581	$25,000	$25,000	$45,942	$42,581
Increases						
Print Shop Revenue	$73,000	$73,000	$0	$0	$73,000	$73,000
Decreases						
Personal Services Expenses	($24,775)	($25,518)	$0	$0	($24,775)	($25,518)
Operating Expenses	(47,423)	(48,822)	0	0	(47,423)	(48,822)
Comp. Absense Adjust	(500)	(500)	0	0	(500)	(500)
Depreciation	(3,663)	(4,264)	0	0	(3,663)	(4,264)
Ending Total Fund Equity	$17,581	$11,477	$25,000	$25,000	$42,581	$36,477

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The fund equity balance objective is to generate sufficient revenue to offset the cost of supplies and personal services based upon full accrual accounting. Thus the fund balance equity should approximate the book value of the equipment pl

Rate Explanation

Department of Fish, Wildlife, and Parks - Administration and Finance Division

LFD Comment **- The following narrative discusses the department's duplicating services proprietary fund and rates.**

The revenue users are department employees. The monthly individual responsibility centers are charged for the duplicating services provided to them.

The rate methodology attempts to determine a rate for various duplicating and bindery services that allows the fund to recover both the cost of the raw materials plus all personal services and operating costs. Rates have historically been adjusted based on the need to increase or decrease the fund cash reserves. The most recent rate change decreased the duplicating costs in fiscal 1995. Previous to that change, rates had not been changed since July 1, 1991.

A rate increase is not anticipated except to recover any inflationary increases of the raw materials and supplies during the 1999 biennium.

Historic and Projected Demand for Each Service - The duplicating center has not historically tracked demand on a volume level. Based on the fact that the FTE in the duplicating center has decreased from 2.00 FTE to 1.00 FTE, the projected demand has been reduced. With only 1.00 FTE, the duplicating center attempts to meet the needs of the agency but there are certain jobs that are too large or the demand for its services are too great that some jobs are taken to Publications and Graphics to be completed.

During fiscal 1996 it is estimated over 3.5 million imprints were made and the anticipated volume is projected to remain constant during the next biennium.

Revenue Objective - The objective of this fund is to recover through rates sufficient funds to cover personal services and operating expenses in addition to the raw materials.

Projected Fiscal 1997 and 1991 Biennium Expenses

Personal Services - The projected cost of personal services is $31,924 in fiscal 1997, $24,775 in fiscal 1998, and $25,518 in fiscal 1999.

Operations - The projected cost of operating is $42,000 in fiscal 1997, $43,775 in fiscal 1998, and $45,088 in fiscal 1999.

Equipment - The projected cost for equipment is $26,161 in fiscal 1998 and $4,295 in fiscal 1999. There are no projected equipment costs in fiscal 1997.

Rates for the 1999 Biennium

Duplicating

Number of copies (includes paper)	FY98	FY99
1 to 20	.040	.041
21 to 100	.025	.026
101 to 1000	.020	.021
1001 to 5000	.015	.015

Bindery

Collating Machine (per sheet)	.005	.005
Stapling Hand (per set)	.015	.015
Saddle Stitch (per set)	.030	.030
Folding (per sheet)	.005	.005
Punching - 3 hole (per sheet)	.001	.001
Cutting (per min)	.550	.550

Reprographics

Size	Line Neg.	Stripped Neg.	Halftone	Stripped Halftone	
10x12		7.00	9.00	10.00	10.00
11x14		8.00	10.00	11.00	11.00

PMTs

Size	Positive	Halftone	Clear Film
10x12	6.50	8.00	6.50
11x14	7.50	9.00	8.00

Metal Plates 9.00

ACCOUNTING ENTITY:	Number 06502	Name Vehicle Account	AGENCY: Fish, Wildlife & Parks		PROGRAM: Admin. & Finance	
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$4,129,524	$4,201,784	$397,000	$397,000	$4,526,524	$4,598,784
Increases						
Vehicle Revenue	$1,249,274	$1,276,233	$0	$0	$1,249,274	$1,276,233
Aircraft Revenue	165,278	175,603	0	0	165,278	175,603
Auction Revenue*	49,210	32,487	0	0	49,210	32,487
Differential Transfer	209,498	333,016	0	0	209,498	333,016
Decreases						
Personal Services Expenses	($55,555)	($57,222)	$0	$0	($55,555)	($57,222)
Operating Expenses	(1,007,015)	(1,037,225)	0	0	(1,007,015)	(1,037,225)
Comp . Absense Adjust	(2,000)	(2,000)	0	0	(2,000)	(2,000)
Depreciation	(536,430)	(536,430)	0	0	(536,430)	(536,430)
Ending Total Fund Equity	$4,201,784	$4,386,246	$397,000	$397,000	$4,598,784	$4,783,246

*Auction revenue is the difference between book value and cash received. If vehicle has a book value of $5,000 and is sold for $5,500 , you would record $500 in revenue.

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The fund equity balance objective is to generate sufficient revenue to offset the accounts expenses based upon full accrual accounting. This the fund balance equity should approximate the book value of the equipment plus sufficient working

Rate Explanation

Department of Fish, Wildlife, and Parks - Administration and Finance Division

LFD Comment **- The following discussion is about the department's vehicle and aircraft proprietary account and rates. The program operates three fixed-wing airplanes and two helicopters. Aircraft are primarily used for conducting wildlife surveys and fish plantings.**

The revenue users are the department employees, mostly enforcement wardens, fish and wildlife biologists, and park employees. Monthly the individual responsibility centers are charged based on the miles driven the previous month.

The rate methodology attempts to determine a cost/mile rate for various classes of vehicles and a cost/hour rate for each of aircraft. The methodology is to determine the previous year's expenses, including operating, maintenance, administration, and depreciation expenses minus the previous year's revenue generated from the rates and from the annual vehicle auction to establish the net income. Establish the life-to-date (LTD) net income for each class of vehicles and LTD miles (hours) driven by class. The LTD net income (loss) on a per mile (hour) basis is determined. Project new years expenses, trended by 3 percent. Based on previous years miles (hours) determine a cost/mile (hour) rate for current year and adjust rate established for any LTD net income (loss) on a per mile (hour) basis. In an attempt to minimize large increases/decreases, rates will not change more than 25 percent per year (10 percent for aircraft).

Historic and Projected Demand for Each Service

	Vehicles (miles)	Aircraft (hours)
FY94	4,423,666	1,024.8
FY95	4,526,928	1,162.5
FY96	4,527,000	1,000.0
FY97	4,527,000	1,200.0
FY98	4,527,000	1,200.0
FY99	4,527,000	1,200.0

Historically, the total miles driven have not radically changed from year to year. There is no anticipated significant changes in fleet size over the next four years and the estimate is based on the previous year's usage.

Revenue Objective - The objective of this fund is to recover through rates and annual auction revenues sufficient funds to cover personal services and operating expenses in addition to being able to replace fleet vehicles at approximately 90,000 miles.

Projected Expenses

Projected 1999 biennium expenses for personal services are trended by 3 percent.
Allocation methodology for indirect (administrative) costs.

Administrative personal services and operational costs are allocated to the fleet by using the costs from the SBAS 661 reports. Costs which are already collected by the Vehicle Accounting System (VAS) are not added to the administrative costs. These include gasoline, diesel, and propane. The rest of the applicable expenses are pro-rated and an administrative cost per vehicle is calculated. Since the insurance costs also include the aircraft, those costs are separated out so that the correct insurance costs are charged to vehicles and aircraft.

Other Revenues - Vehicle differential - The department charges a per mile rate. The rate attempts to recover maintenance, operation, insurance, and depreciation of vehicles. Federal regulations prohibit FWP from including in the rate the "replacement value" of the vehicle. Thus, with vehicle costs increasing annually, the department does not recover sufficient cash through the rates to replace the vehicles.

LFD Issue **- Although the executive includes this transfer ($209, 498 in fiscal 1998 and $333,016 in fiscal 1999) as revenue in its rate development, the executive is actually requesting transfers of $174,314 in fiscal 1998 and $289,414 in fiscal 1999. The executive should recalculate the rates based on the amount of revenue being requested to transfer to the proprietary account.**

The vehicle differential transfer is the accumulated difference in price between the estimated cost of the new vehicle and the price that FWP paid for the original vehicle which needs to be replaced.

LFD Issue **- Due to changes enacted by HB 576, the legislature must set the hourly rate for department aircraft and the per mile charges for department vehicles. The executive analysis does not present the executive proposed rates. The legislature might want to ask the department for the needed information.**

ACCOUNTING ENTITY:	Number 06503	Name Warehouse Account	AGENCY: Fish, Wildlife & Parks		PROGRAM: Admin. & Finance	
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$117,988	$108,942	$85,450	$85,450	$203,438	$194,392
Increases						
Total Revenue	$125,617	$125,617			$125,617	$125,617
Decreases						
Personal Services Expenses	($3,067)	($3,174)			($3,067)	($3,174)
Operating Expenses	(7,061)	(7,291)			(7,061)	(7,291)
Goods for Resale	(124,434)	(128,167)			(124,434)	(128,167)
Comp. Absense Adjust	(100)	(100)			(100)	(100)
Ending Total Fund Equity	$108,943	$95,827	$85,450	$85,450	$194,393	$181,277

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The fund equity balance objective is to generate sufficient revenue to offset the cost of the merchandise and to cover the costs to operate the function. Thus the fund balance equity should approximate the book value of the inventory plus

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Warehouse Overhead	10%	6%	6%	6%	Administrative Formula
Office Supply Overhead	40%	40%	15%	15%	Administrative Formula

Rate Explanation

Department of Fish, Wildlife, and Parks - Administration and Finance Division

LFD Comment **- The following narrative discusses the department's warehouse proprietary account and rates.**

The FWP warehouse and office supply inventory consists mainly of uniform inventory items (both for wardens and non-wardens) and items specifically related to the duties of the department such as gill nets for the fisheries biologists.

The revenue users are department employees. Monthly the individual responsibility centers are charged for the warehouse inventory and office supplies that they received the previous month.

The rate methodology attempts to determine an overhead rate that is added to the cost of the item to recapture the costs incurred in operating the warehouse and the office supply areas. Due to the unique nature of the office supply inventory, the department established a separate overhead rate for both the warehouse and the office supply inventory. The methodology is as follows:

1) Determine previous year's overhead expenses. These would include personal services and operating expenses.
2) Determine previous year's overhead recovery.
3) Determine previous year's over (under) recovery of overhead expenses.
4) Determine life-to-date (LTD) over recovery of overhead expenses.
5) Estimate current year's overhead expenses and adjust for any over (under) recovery.
6) Determine average revenue.

7) New overhead rate is current year's estimated overhead expenses adjusted for any over (under) recovery divided by the average anticipated revenue.

Historic and Projected Demand for Each Service

	Warehouse	Office Supply
FY94	45,607	18,075
FY95	80,526	21,895
FY96	78,351	26,000
FY97	76,102	26,000
FY98	76,102	26,000
FY99	76,102	26,000

Demand has leveled off and will remain constant during the next biennium.

Revenue Objective - The objective of this fund is to recover through rates the personal services and operating expenses.

Projected Fiscal 1997 and 1999 Biennium Expenses

Personal Services - The fiscal 1997 projected costs are $2,978, fiscal 1998 are $3,067, and fiscal 1999 are $3,174.

Operating Expenses - The fiscal 1997 projected costs are $127,180, fiscal 1998 are $130,975, and fiscal 1999 are $134,958.

The warehouse and office supply rates are as follows:

	FY96	FY97	F Y 9 8 FY99
Warehouse	10%	6%	6% 6%
Office Supply	40%	15%	15% 15%

Executive Present Law

The present law adjustments table is not presented for the duplicating center, warehouse, or vehicle proprietary fund account portion of the Administration and Finance Division and the aircraft maintenance account portion of the Field Services Division. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 Duplicating Center Replacement Equipment - The replacement equipment request is $26,712 in fiscal 1998 and $4,295 in fiscal 1999, which includes replacing an image maker, three-hole paper drill, and multi-folder.

2) HB 576 Vehicle Enterprise Fund Replacement Equipment - The replacement equipment request includes $473,680 for replacement vehicles in fiscal 1998 and $891,200 for replacement vehicles in fiscal 1999. For vehicles to be leased from the State Motor Pool, rather than direct replacement purchase by the agency, there is $47,719 in fiscal 1998 for 4 sedans, 12 utility vehicles, and 1 mini-van and $23,620 in fiscal 1999 for 1 sedan, 3 utility vehicles, and 3 mini-vans. In addition, there is $45,860 to continue the first year vehicles. The vehicles will be located in Great Falls, Kalispell, Bozeman, Missoula, Glasgow, Miles City, and Helena. The motor pool will purchase and manage the vehicles, provide maintenance, and arrange for fuel, charging a per mile lease fee to the program based on cost. The operating expenses contain reductions of $28,061 in fiscal 1998 and $38,245 in fiscal 1999 for gasoline and maintenance cost savings. Refer to the department of Transportation (MDOT) State Motor Pool narrative for the statewide information on leased vehicles.

3) HB 579 Aircraft Maintenance - Scheduled maintenance costs for the department fixed wing and rotary powered aircraft will increase by $60,000 each year of the biennium. In fiscal 1999, there is $70,000 requested to replace the engines, overhaul propellers, control cables, and wing spar AD inspection of the Partenavia aircraft.

The appropriation for the aircraft maintenance should be made to the Field Services Division.

Program Description

The central management function of the Department of Environmental Quality consists of the Director's Office and the Centralized Services Division. The Director's Office includes the director's staff, a centralized Legal Services Unit, and a centralized Personnel Office. The Centralized Services Division, which exists as an organizational staff division attached to the director's office, represents a centralized extension of the director's responsibility and ability to provide budgeting, accounting, procurement, contract management, and information services support to the line divisions of this agency.

The Director's Office is the organizational component of the agency that is responsible and accountable for the effective administration, management, planning, and evaluation of total agency performance in carrying out department mission and statutory responsibilities. The director oversees and ensures effective development of appropriate policy and procedures throughout all organizational units of the agency and ensures, through effective leadership and supervision, that the agency organization structure supports optimum efficiency, consistency, and capability for planning, consultation, and decision making relative to the mission of the agency. In addition, the office provides for personal and legal support services to the program and fiscal support divisions of the agency, primary liaison services with federal and state agencies, and other intergovernmental liaison requirements, and consultation and primary liaison activities for public information requirements.

The Centralized Services Division is responsible for providing services to the department in the following areas: central budgeting, accounting, fiscal reporting, internal auditing, procurement including contracts for services and the purchasing of supplies and equipment, and information technology services. The division is responsible for responding to and working with other state agencies, the Governor's office, the Legislative Branch, federal agencies, legislative groups, and the public with activities relative to the fiscal management of the department. There are three bureaus in the division, Support Services, Information Services, and the Contracts and Procurement Bureau.

LFD Comment **- As the result of reorganization, the laboratories in the former DHES were transferred to this division. However, under executive order 12-95 the laboratories, 28.0 FTE, and $1.8 million in state special revenue appropriations were transferred to the Department of Public Health and Human Services.**

Executive Present Law

The present law table is not presented for the Central Management Program proprietary fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund fees and charges. However, narrative for significant present law adjustments is presented for explanatory purposes.

1) Other Base Adjustments - The executive recommends a reduction of $36,258 in fiscal 1998 and $5,463 from the base for operations. Equipment requests in fiscal 1998 are $70,015 and $101,740 in fiscal 1999. The executive recommends $15,553 in fiscal 1998 and $47,278 in fiscal 1999 above the base. Equipment proposed to be replaced are PCS, PC workstations, printers, network servers, network tape backup systems, desks, and a laptop PC.

LFD Comment **- The executive requests a total of $343,216 in fiscal 1998 and $327,923 in fiscal 1999 over fiscal 1996 expenditures. Increases occur primarily in personal services, fixed costs (mainly insurance), and new proposals.**

Executive New Proposals

The new proposal table is not presented for the Central Management Program proprietary fund. The concept of individual new proposal adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary fund

fees and charges. However, narrative for new proposals is presented for explanatory purposes.

1) Internet Services - The executive recommends adding $25,000 each fiscal year to support and provide a Homepage and information on the Internet for the department. Public, private interests and businesses, federal agencies, other states and local governments are making the Internet a source of sharing information and data such as draft EIS, water information, permitting status, environmental information as it pertains to Montana, to name a few. Funding is 100 percent proprietary.

2) Database Support - The Executive Budget adds $106,181 in fiscal 1998 and $104,186 in fiscal 1999 to update the several databases to the state standard, Oracle. This update includes: the addition of 1.00 FTE information systems support specialist, grade 15; training for programmer/analysts within the department; software licensing and maintenance; and contract systems development and programming for a portion of the existing databases. This program is funded entirely with proprietary funds.

LFD Comment **- The executive is actually requesting $100,721 in each fiscal year for this new proposal.**

3) Remote Dial-In Access Expansion - The budget increases $4,600 each year of the biennium to expand the network Remote Dial-in Access (RDA) system of the DEQ. One additional user capability is added each fiscal year with proprietary funding.

LFD Comment **- The executive is actually requesting $4,600 only in fiscal 1998.**

ACCOUNTING ENTITY	Number 06509	Name DEQ Indirect	AGENCY: Environmental Quality		PROGRAM: Central Management	
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$100,000	$100,000	$0	$0	$100,000	$100,000
Increases						
Indirect Changed to Programs	$2,200,000	$2,266,000	$0	$0	$2,200,000	$2,266,000
Decreases						
Personal Services Expenses	($1,500,000)	($1,545,000)	$0	$0	($1,500,000)	($1,545,000)
Operating Expenses	(700,000)	(721,000)	0	0	(700,000)	(721,000)
Ending Total Fund Equity	$100,000	$100,000	$0	$0	$100,000	$100,000

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Expenses Against Personal Serv	18.16%	16.72%	17.00%	17.00%	Admin formula negotiated with Fed Govt

Rate Explanation

Department of Environmental Quality - Central Management Program

LFD Comment **- The following discussion is about the department's Central Management indirect rate charged to other divisions. Due to changes enacted by HB 576, the legislature sets this rate rather than setting appropriations to fund Central Management.**

The Centralized Services Division of the DEQ is responsible for providing general support services to the rest of the DEQ, including accounting and financial management, internal audit, data processing support, and purchasing. The Director's Office provides overall management for the department.

With regard to fringe benefits for all employees included in the indirect cost pool, those costs are expended from the indirect cost pool during the year. For all employees that direct charge salaries and benefits to one or more grant programs, the amount of leave earned is charged to the grant program in proportion to the actual time worked on the grant(s).

All other costs such as rent, telephone, travel, and supplies for the operations of the Centralized Services Division and Director's Office are charged to the indirect cost pool. The exception to this rule are cases where an employee, auditor, or budget analyst incurs travel costs specifically chargeable to one or more grant program(s) for the performance of services. Those travel costs are charged directly to the grant.

The State-Wide Central Service Costs, (SWCAP) are all charged to the indirect cost pool fees. They include such things as legislative audit, personnel payroll processing costs, state central accounting costs, and messenger services and state central mail services. These costs were included in the fixed rate.

The rate is applied to actual personal services charged so personal services is the base for the calculation. The rate in fiscal 1996 was 17 percent and the rate in fiscal 1997 is 16.72 percent. After the reorganization, the department's federal cognizant agency became the Environmental Protection Agency (EPA). The rate applied is fixed. In fiscal 1998 and 1999 the rate budgeted is 17 percent.

The over or under recovery for any given fiscal year is carried forward two years into the fund balance calculation. Any over or under recovery for fiscal 1996 will be considered in the calculation of the fiscal 1998 rate. Currently the rate is being calculated for fiscal 1998 and is to be presented to the EPA for negotiations and approval.

LFD Issue **- Central Management provides department-wide services such as the director's office, accounting, budgeting, and grant and contract management. The other programs are budgeted for and pay the indirect charge from the same sources that pay other program expenses. Although the federal government essentially sets the rate and methodology through regulation with the state, the legislature assumes a rate and expresses its intent on the rate through how much it appropriates for indirect charges in the other divisions' budgets. The executive has chosen an indirect cost rate methodology based on the amount of personal service costs in other programs. The rate is applied to these costs in each program and the money is deposited in the proprietary fund account. Money in the proprietary account is not budgeted by the legislature.**

Given the chosen methodology, the rate is dependent on two basic factors: 1) the amount of money needed to be raised; and 2) the amount of personal services in other programs. Table 7 shows the amount of money needed to be raised based on the budget for Central Management as proposed by the executive. The amounts represent increases of $343,216 in fiscal 1998 and $327,923 in fiscal 1999 from fiscal 1996 expenditures. Although 1.0 FTE was transferred to DNRC (requested as a new proposal), DEQ is adding 1.0 FTE through a new proposal.

Table 7
Department of Environmental Quality
Central Management Budget
Non-budgeted Funds

	Fiscal 1996		Fiscal 1998		Fiscal 1999	
Programs	Expenditures	FTE	Expenditures	FTE	Expenditures	FTE
Director/legal/personnel	$688,505	Unknown	$670,723	14.00	$672,380	14.00
Administration	151,517	Unknown	256,035	2.00	275,487	2.00
Support services-purchasing	712,393	Unknown	771,701	15.00	703,386	15.00
Information services	376,039	Unknown	372,875	7.00	377,663	7.00
Equipment	0	Unknown	70,015		101,740	
Total	$1,928,454	39.00	$2,141,349	38.00	$2,130,656	38.00
New Proposals						
Database Support			$100,721	1.00	$100,721	1.00
Remote Dial-in Access			4,600			
Internet Services			25,000		25,000	
Total			$130,321	1.00	$125,721	1.00
Total	$1,928,454	39.00	$2,271,670	39.00	$2,256,377	39.00
Budgeted changed from FY96			$343,216	0.00	$327,923	0.00

Based on the proposed expenditures and the amount of personal services in other programs, the executive proposes a rate of 17 percent each fiscal year of the 1999 biennium. This rate is currently being negotiated with the federal government for fiscal 1998. The legislature could set a different rate for fiscal 1999. The rate set by the legislature could differ from the executive proposed rate if the legislature: 1) changed the amount of money needed to pay Central Management costs; 2) changed the amount of personal services in present law; and 3) did not approve new proposals that contain personal services. Changes 2 and 3 occur as the legislature considers the executive proposed budgets for the programs. If rates change, program budgets may need to be adjusted to reflect the new rates. The rate proposed by the executive is set to raise enough money to pay for new proposals and for present law increases in the Central Management Division (primarily personal services and fixed costs). If the legislature feels any of these expenditures should not be made, the rate could be reduced accordingly The proposed executive rate assumes that all new proposals with personal services in the other divisions will be approved and includes amounts in thosebudgets to pay the indirect assessment. If the legislature does not approve thos new proposals, the rate could increase accordingly.

Legislative Options

1) Accept the executive rate
2) Develop a different rate
    a) Based on a change in the amount of money needed to pay Central Management costs
    b) Based on changes in personal services in present law or new proposals not approved
    c) Change amounts budgeted in other divisions for indirect costs accordingly

ACCOUNTING ENTITY:	Number 06538	Name Air Operations	AGENCY:	DNRC	PROGRAM:	Air Operations

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$130,000	$231,846	$0	$0	$130,000	$231,846
Increases						
Fixed Wing Fees	$46,750	$49,500	$0	$0	$46,750	$49,500
Jet Rangers Fees	113,750	117,250	0	0	113,750	117,250
Hueys Fees	288,000	297,000	0	0	288,000	297,000
General Fund	336,500	370,150	0	0	336,500	370,150
Decreases						
Personal Services Expenses	($234,566)	($234,566)	$0	$0	($234,566)	($234,566)
Operating Expenses	(448,588)	(417,267)	0	0	(448,588)	(417,267)
Ending Total Fund Equity	$231,846	$413,913	$0	$0	$231,846	$413,913

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Major Fee "A" Fixed Wing	$85 p/h	$85	$85	$90	
Majpr Fee "B" Jet Rangers	$325 p/h	$325	$325	$335	
Major Fee "C" Hueys	$800 p/h	$800	$800	$825	

Rate Explanation

Department of Natural Resources and Conservation - Forestry

The Department of Natural Resources and Conservation Air Operations Program in the Forestry Division is funded from the air operations proprietary account for those costs that can be supported by the aircraft rates charged to agencies that use the aircraft. The aircraft rates support the actual usage costs such as fuel, repairs, maintenance, and other operational items.

Due to the unique service provided, the Legislative Auditor's Office has recommended that the total operation be supported by the proprietary account. General fund is appropriated in HB 2 for fixed costs such as salaries, rent, and insurance. As a result of the audit recommendation, the general fund appropriated in HB 2 is transferred to the proprietary account.

LFD Issue **- Due to changes enacted by HB 576, the legislature must set the hourly rate for department aircraft based on the amount of fixed and variable costs anticipated in the air operations program. The program operates three medium helicopters, two light helicopters, and three single engine fixed-wing airplanes. Aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. Fixed costs are paid by the general fund since they must be paid regardless of number of hours flown. These costs include hangar rent, insurance, and personnel costs. The general fund is appropriated by the legislature and transferred to and spent from the proprietary account. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft. Users of the aircraft include DNRC, other state agencies, federal agencies, and the state's wildfire efforts. This revenue is also deposited to the proprietary account.**

The program costs in the executive table are in error. Total expenditures being requested by the air operations program are $444,220 in fiscal 1998 and $445,677 in fiscal 1999. Table 8 shows the correct budget and breaks down the costs into fixed and variable. The executive is requesting decreases from fiscal 1996 expenditures in the program. The executive is requesting $337,500 general fund each fiscal year (as part of the Forestry Division's budget) to pay fixed costs. Although the executive is requesting the same amount of general fund spent in fiscal 1996 for each year of the 1999 biennium, the executive applied vacancy savings for reductions in personal services of $7,164 in fiscal 1998 and $7,166 in fiscal 1999 to fund the pay plan. Since this is a reduction in fixed costs, the general fund should be reduced by these amounts as well.

The hourly rate is set to cover only the variable costs. If the rate actually covers some fixed costs already paid by general fund, more money is collected than needed to pay the fixed costs and the fund balance increases. Based on the rates, estimated flight hours, and the budget of the program as submitted by the executive, the fund balance will increase to $859,000 at the end of fiscal 1999. In the past, the legislature used this additional revenue to reduce the general fund support.

Table 8
Department of Natural Resources
Air Operations Budget
Non-budgeted Funds

Programs	Fiscal 1996 Expenditures	Fiscal 1998 Expenditures	Fiscal 1999 Expenditures
FTE	5.80	5.80	5.80
Fixed Costs (General Fund)	$337,500	$337,500	$337,500
Personal Services	228,517	231,656	231,696
Other Fixed Costs	108,983	105,844	105,804
Variable Costs	132,375	106,720	108,177
Total	$469,875	$444,220	$445,677
Budgeted Change From FY96		($25,655)	($24,198)

The proposed hourly rates and hours for fiscal 1998 are: 1) fixed-wing - $85 for 550 hours; 2) light helicopters - $325 for 350 hours; and 3) medium helicopters - $800 for 360 hours. The hourly rates and hours for fiscal 1999 are: 1) fixed-wing - $90 for 550 hours; 2) light helicopters - $335 for 350 hours; and 3) medium helicopters - $825 for 360 hours.

Legislative Action

1) Ask the executive to recalculate the rates and fixed cost amounts.
2) Accept the executive rates:
   a) decrease general fund support to $320,500 each fiscal year;
   b) eliminate all general fund support only for the 1999 biennium; and
   c) maintain general fund at the executive level.
3) Change the executive rates.

ACCOUNTING ENTITY:	Number 06011	Name Alfalfa Leaf-Cutting Bee	AGENCY:	Agriculture	PROGRAM:	Agricultural Science
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$3,957	$3,033	$0	$0	$3,957	$3,033
Increases						
Minor Fees Revenue	$3,680	$3,680	$0	$0	$3,680	$3,680
Decreases						
Personal Services Expenses	($2,176)	($2,241)	$0	$0	($2,176)	($2,241)
Operating Expenses	(2,428)	(2,501)	0	0	(2,428)	(2,501)
Ending Total Fund Equity	$3,033	$1,971	$0	$0	$3,033	$1,971

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Minor Fees A	$30	$30	$30	$30	80-6-1109
Minor Fee B	15	15	15	15	80-6-1109

Rate Explanation

Department of Agriculture - Agricultural Sciences Division

Alfalfa Leaf-Cutting Bee - Fees are charged for certification and registration of bees in Montana in accordance with 80-6-1109 MCA, which authorizes the Alfalfa Leaf-Cutting Bee Committee to set fees sufficient for costs incurred in providing services and carrying out its duties. It is the intent of the legislature that committee activities be self-supporting. The committee may expend only funds which are raised by fees pursuant to 80-6-1112, MCA. In the event that funds are insufficient to finance the costs of services, the committee may reduce services accordingly.

Retained Earnings and Contributed Capital - As shown in Schedule 1, retained earnings are projected to decrease during the biennium with rates adequate to cover administrative expenses.

ACCOUNTING ENTITY:	Number 06552	Name POL Admin Services	AGENCY:	Commerce	PROGRAM:	POL

Description	FY 98 Fund Balance Unreserved	FY 99 Fund Balance Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$64,273	$109,599	$763	$763	$65,036	$110,362
Increases						
POL Pool Recharges	$1,385,000	$1,400,000	$0	$0	$1,385,000	$1,400,000
POL Documents/Legal/Misc Revenues	6,385	6,570	0	0	6,385	6,570
Decreases						
Personal Services Expenses	($1,002,966)	($1,032,423)	$0	$0	($1,002,966)	($1,032,423)
Operating Expenses	(329,191)	(326,659)	0	0	(329,191)	(326,659)
Other Decreases (Specify)						
Estimated Depreciation/Amortization	($13,902)	($13,902)	$0	$0	($13,902)	($13,902)
Ending Total Fund Equity	$109,599	$143,185	$763	$763	$110,362	$143,948

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The revenue objective of the POL Administrative Services Pool of the POL Bureau of the Department of Commerce is to maintain the lowest possible recharges to supported licensing boards and occupational programs while attempting to maintain a reasonable and prudent 60 day working capital reserve.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
POL HB0002 Programs Recharge Rate	32.03%	31.94%	33.68%	33.38%	37-1-101(6), MCA

Rate Explanation

Department of Commerce - POL Bureau

Revenue Objective - The revenue objective of the POL Bureau is to assess the common costs of operations to the special revenue accounts on an equitable basis.

Projected Expenses

Personal Services - During fiscal 1996, the bureau received approval to add 0.75 FTE and combine it with an existing 0.25 FTE to be used for administering the provisions of the boiler licensing program transferred from the Department of Labor and Industry by the last legislature. This analysis assumes that this previously approved FTE consolidation and transfer is permanent.

Operating Expenses - The fiscal 1997 operating expenses are projected at the legislatively-approved level per fiscal 1996 turnaround documents.

Equipment Expenses - Fiscal 1997 equipment expenses are projected at the legislatively-approved level per fiscal 1996 turnaround documents.

Fiscal 1998-99 Projected Present Law Base for Direct and Indirect Costs

Personal Services - The bureau is assuming that the 1996 FTE consolidation and transfer that was previously approved is permanent. The bureau is also assuming that the 1.00 FTE legal secretary will be approved. Therefore, fiscal 1998 and fiscal 1999 projected personal services expenditures are estimated at the 1997 level trended by 3

percent per year and the addition of a 1.00 FTE.

Operating Expenses - Fiscal 1998 and fiscal 1999 projected operating expenses are estimated at the 1997 level trended by 3 percent per year, the inclusion of projected biennial audit costs, and any operating expenses.

Equipment Expenses (Working Capital Analysis) - Fiscal 1998 and fiscal 1999 projected equipment expenses are based upon replacement of nondiscretionary equipment.

Depreciation Expense (Fund Balance and Fees and Charges Analysis) - Fiscal 1998 and fiscal 1999 depreciation and amortization amounts are based upon the April, 1996, PAMS 180 reports which contain projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

The schedule does not use any cost factors in excess of the standard 3 percent trend factor.

Allocation Methodology - Recharges are allocated to the special revenue accounts based upon the appropriations for each program. Minor adjustments are made to appropriations for programs that pay for their own office space rent (Board of Medical Examiners, Board of Nursing, and Board of Outfitters). Recharges are calculated by totaling all adjusted special revenue. Based on the total, a percentage is calculated for each special revenue account to determine a percentage rate. That rate is then multiplied by the total recharge revenue amount to determine the recharge assessment to each program.

As detailed above, the bureau is assuming that the fiscal 1996 FTE addition previously approved is permanent. The bureau is also assuming that the 1.00 FTE legal secretary will be approved, as well as the operating expenses and the replacement of non-discretionary equipment.

LFD Issue **- As noted above, various assumptions used to calculate the rate charged to the boards include: 1) making permanent the addition of 1.0 FTE to the boiler program; 2) the addition of 1.0 FTE to perform legal secretary functions for the POL bureau, and 3) various present law operational cost increases. If the legislature does not concur with one or more of these requested adjustments, the legislature should direct the Department of Commerce POL Bureau to recalculate and/or adjust its internal rate to the boards accordingly.**

Other Revenues - Other revenues that the POL Bureau receives includes fees paid for obtaining copies of documents and billings made to other DOC divisions/bureau for administrative rule paralegal work.

Schedule of "Fixed Costs" - The bureau cost allocation applies only to special revenue programs within the Department of Commerce, and not to other executive, legislative, or judicial branch agencies.

The bureau allocates "fixed costs" such as rent, warrant writing fees, grounds maintenance, payroll service fees, audit charges, insurance and bond costs, and others to the special revenue programs when computing the recharges for the year.

Inflation/Deflation - The schedule does not use any cost factors in excess of the standard 3 percent trend factor. Therefore, it appears that weighted average calculations would not be applicable or necessary for this accounting entity.

Executive Present Law

The present law adjustments table is not presented for the POL Bureau proprietary fund account portion of the budget. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) Workload Increase POL Pool FTE - The 1995 legislature transferred the boiler licensing program from the Department of Labor and Industry to the POL Bureau. The compliance specialist with the expertise and specific knowledge of boiler licensing programs was not transferred. A modified level 0.75 FTE was approved during the interim to fulfill regulatory responsibilities. Because the position was modified, it was deleted from the base. The request is to make the FTE permanent. The request is for $26,776 personal services and operating in fiscal 1998 and $26,752 personal services and operating in fiscal 1999.

LFD Issue **- As indicated above, the compliance specialist FTE was not transferred from the Department of Labor and Industry (L&I) to DOC upon transfer of the boiler licensing function transfer. Additionally, a half-ton truck was used to perform this function previously in DOLI and was also not transferred to DOC. As such, in addition to the above present law request above for 1.0 FTE, there is also a present law adjustment being requested by the executive in the POL budget request in the Department of Commerce narrative for a half-ton truck for the boiler licensing program. The legislature may wish to consider either reducing the appropriation to DOLI, requiring transfer of the FTE or pickup, or not funding this request if it does not wish to increase the costs of this function over the costs experienced prior to this transfer.**

2) POL Legal Support FTE - The legal workload of the POL pool has increased due to the large number of programs, board meetings, committee meetings, applicants, licensees, complaints, and contested cases. The legal unit has grown to four attorneys, but the support staff has not increased. There is also an increase in the need for rulemaking services. The paralegal expends approximately 80 percent of time performing administrative rule duties and responsibilities. The request is for 1.00 FTE for $25,931 in fiscal 1998 and $25,807 in fiscal 1999. Also requested is a personal computer in fiscal 1998 for $3,500.

3) POL Printer Replacement - The high speed printer is used to print approximately 67,000 licenses per year, 30,000 labels per month, 2,000 renewal applications per year, and licensee lists of 10,000 pages per year. The request is to upgrade the printer to maintain effective and efficient operation. The cost is $10,000 in fiscal 1998.

ACCOUNTING ENTITY:	Number 06042	Name Audit Review	AGENCY:	Commerce	PROGRAM:	Audit Review
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Tota Fund Equity
Beginning Total Fund Equity	$167,088	$166,118	$0	$0	$167,088	$166,118
Increases						
Report Filing Fees	$234,000	$234,000	$0	$0	$234,000	$234,000
CPA Roster Fees	3,000	3,000	0	0	3,000	3,000
Decreases						
Personal Services Expenses	($164,565)	($169,502)	$0	$0	($164,565)	($169,502)
Operating Expenses	(67,651)	(69,681)	0	0	(67,651)	(69,681)
Depreciation/Amortization	(5,754)	(5,754)	0	0	(5,754)	(5,754)
Ending Total Fund Equity	$166,118	$158,181	$0	$0	$166,118	$158,181

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The fund equity objective of the Audit Review program of the Department of Commerce is to charge the lowest possible fees to local governments, state agencies, and certified public accountants based upon the costs incurred by the Department in carrying out its duties and responsibilities under Title 7, Chapter 6, Part 5, MCA, while attempting to maintain a reasonable and prudent working capital reserve. Program revenues are not received uniformly throughtout the fiscal year Less than 2% of program revenue is received within the first two months (60 days) of the fiscal year, only 4% within the first three months, 16% within the first fourt months, 23.5% within the first 5 months, and 29% within the first 6 months. Approximately 60% of annual program revenue is received at one time during January from the Office of Public Instruction Therefore, the program requires approximately a four month working capital reserve and a larger fund balance at the beginning of each fiscal year in order to avoid cash deficits that could only be overcome with general fund loans

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Major fee-Report filing fee	Variable fee, as follows:	Variable fee, as follows:	Variable fee, as follows (Assumes ARM change to reduce fees - tentative schedule):	Variable fee, as follows (Assumes ARM change to reduce fees - tentative schedule):	Section 2-7-514, MCA, & ARM 8.94 4102
	Fee $-0- if total annual revenues are less than $200,000 and federal financial assistance is less than or equal to $25,000	Fee $-0- if total annual revenues are less than $200,000 and federal financial assistance is less than or equal to $25,000	Fee $-0- if total annual revenues are less than $200,000 and federal financial assistance is less than or equal to $25,000	Fee $-0- if total annual revenues are less than $200,000 and federal financial assistance is less than or equal to $25,000	
	Fee $225 if total annual revenue are less than $200,000 and federal financial assistance is greater than $25,000	Fee $225 if total annual revenue are less than $200,000 and federal financial assistance is greater than $25,000	Fee $-0- if total annual revenue are less than $200,000 and federal financial assistance is greater than $25,000	Fee $-0- if total annual revenue are less than $200,000 and federal financial assistance is greater than $25,000	
	Fee $225 if total annual revenues are equal to or greater than $200,000 but less than $500,000	Fee $225 if total annual revenues are equal to or greater than $200,000 but less than $500,000	Fee $225 if total annual revenues are equal to or greater than $200,000 but less than $500,000	Fee $225 if total annual revenues are equal to or greater than $200,000 but less than $500,000	
	Fee $425 if total annual revenues are equal to or greater than $500,000 but less than $1,000,000	Fee $425 if total annual revenues are equal to or greater than $500,000 but less than $1,000,000	Fee $400 if total annual revenues are equal to or greater than $500,000 but less than $1,000,000	Fee $400 if total annual revenues are equal to or greater than $500,000 but less than $1,000,000	
	Fee $575 if total annual revenues are equal to or greater than $1,000,000 but less than $1,500,000	Fee $575 if total annual revenues are equal to or greater than $1,000,000 but less than $1,500,000	Fee $550 if total annual revenues are equal to or greater than $1,000,000 but less than $1,500,000	Fee $550 if total annual revenues are equal to or greater than $1,000,000 but less than $1,500,000	
	Fee $650 if total annual revenues are equal to or greater than $1,500,000 but less than $2,500,000	Fee $650 if total annual revenues are equal to or greater than $1,500,000 but less than $2,500,000	Fee $625 if total annual revenues are equal to or greater than $1,500,000 but less than $2,500,000	Fee $625 if total annual revenues are equal to or greater than $1,500,000 but less than $2,500,000	
	Fee $725 if total annual revenues are equal to or greater than $2,500,000 but less than $5,000,000	Fee $725 if total annual revenues are equal to or greater than $2,500,000 but less than $5,000,000	Fee $700 if total annual revenues are equal to or greater than $2,500,000 but less than $5,000,000	Fee $700 if total annual revenues are equal to or greater than $2,500,000 but less than $5,000,000	
	Fee $775 if total annual revenues are equal to or greater than $5,000,000 but less than $10,000,000	Fee $775 if total annual revenues are equal to or greater than $5,000,000 but less than $10,000,000	Fee $750 if total annual revenues are equal to or greater than $5,000,000 but less than $10,000,000	Fee $750 if total annual revenues are equal to or greater than $5,000,000 but less than $10,000,000	
	Fee $825 if total annual revenues are greater than $10,000,000	Fee $825 if total annual revenues are greater than $10,000,000	Fee $800 if total annual revenues are greater than $10,000,000	Fee $800 if total annual revenues are greater than $10,000,000	
Minor fee-CPA roster fee	$50.00	$50.00	$50.00	$50.00	Section 2-7-506, MCA, and ARM 8.94.4106

Rate Explanation

Department of Commerce - Local Government Services Bureau

Funding - Funding for the Audit Review Program is primarily derived from filing fees paid by local governments that are required to be audited by the Montana Single Audit Act and from fees paid by certified public accountants who wish to be included on the roster of independent auditors authorized to conduct audits of local governments.

Rate Methodology - The audit review program has one major and one minor fee revenue.

Major Fee - The major fee revenue is the report filing fee required by 2-7-514, MCA. The fee is required by statute to be based upon the costs incurred by the department in the administration of Title 2, Chapter 7, part 5, MCA. Section 2-7-514, MCA, provides that all local government entities required to be audited under Title 2, Chapter 7, part 5, MCA, shall pay the filing fee. For all local governments except school districts and associated cooperatives, that fee is required to be paid by the local government at the time that it files its annual financial report with the Department of Commerce. In the case of school districts and associated cooperatives, the Office of Public Instruction (OPI) is required to file a listing of school districts subject to audit by December 31 each year. OPI is also required to pay the filing fee for school districts and associated cooperatives subject to audit. The Department of Commerce bills OPI for the filing fees once a year in January, based on the information provided by OPI in December in the above report. The department is required to adopt the fee schedule by administrative rule based upon the local government entities' revenue amounts. That fee schedule has been adopted as ARM 8.94.4102. The current schedule, which will be in effect through fiscal 1997, is as follows:

Annual Revenues Equal to or Greater Than:	Annual Revenues Less Than:	Fee
$0.00	$200,000.00 and federal assistance less than or equal to $25,000.00	$0.00
$0.00	$200,000.00 and federal financial assistance greater than $25,000.00	$225.00
$200,000.00	$500,000.00	$225.00
$500,000.00	$1,000,000.00	$425.00
$1,000,000.00	$1,500,000.00	$575.00
$1,500,000.00	$2,500,000.00	$650.00
$2,500,000.00	$5,000,000.00	$725.00
$5,000,000.00	$10,000,000.00	$775.00
$10,000,000.00		$825.00

The above fee schedule provided $246,900 in revenue for fiscal 1995. Revenue from this fee schedule for both fiscal 1996 and fiscal 1997 is estimated to be approximately $248,000.

The audit review program was started as a result of legislation passed in 1991. The initial funding for the program was provided by a general fund loan, which was to be repaid over a 5-year period. The last payment of $34,915 on the loan will be made in June 1997. Therefore, the fee schedule for future years will not have to include revenue for the loan payment. It is anticipated the fee schedule will be revised in the administrative rules to reduce fees for fiscal 1998 and fiscal 1999. The exact schedule to be proposed has not been finalized, but total revenues from the filing fee will be reduced from present levels to approximately $234,000 per year, the amount presented in schedule for fiscal 1998 and fiscal 1999.

Minor Fee - The minor fee revenue is the roster fee provided for by 2-7-506, MCA. That section provides that the Department of Commerce may prepare and maintain a roster of independent auditors authorized to conduct audits of Montana local government entities. The department, in consultation with the Board of Public Accountants, is required to adopt rules governing the criteria for the selection of the independent auditor; procedures and qualifications for placing applicants on

the roster; procedures for reviewing the qualifications of independent auditors on the roster to justify their continuance on the roster; and fees payable to the department for application for placement on the roster.

The department has adopted the above as ARM 8.94.4106. The current fee in the rule is $50 per year. The department has no present plans to change the fee, which provides approximately $3,000 per year in revenue.

Working Capital Reserve - The working capital reserve level of no greater than 60 days appears to assume that revenue will be received in some uniform manner throughout the fiscal year. That is not the case for the audit review program. The filing fee paid by local governments and the OPI is the major revenue source for the program. The fee, except for school districts and associated cooperatives, is required to be paid at the time that the local government files its annual financial report. Those reports are due within four months after the close of the fiscal year. Since almost all Montana local governments operate on a July 1 to June 30 fiscal year, most reports are due by October 31 and the reports and fees are received by the department during October. Extensions may be granted, and some reports with the required fees are not paid until several months later. In the case of school districts and associated cooperatives, as noted above under the heading "Major Fee," the filing fees are not paid by the OPI until January. Less than 2 percent of program revenue is received within the first two months (60 days) of the fiscal year, only 4 percent within the first three months, 16 percent within the first four months, 23.5 percent within the first five months, and 29 percent within the first six months. Approximately 60 percent is received at one time in January from OPI. Therefore, the program needs approximately a four months working capital reserve at the beginning of each fiscal year in order to avoid cash deficits.

As noted above under the heading "Major Fee," the department plans to amend the administrative rule to reduce fees for the fiscal 1998 and fiscal 1999 fiscal years. Because of the time and expense involved in amending administrative rules, changing forms, and changing computer programs, it is the audit review program's policy to attempt to keep fees relatively level, without fluctuations from year to year. Therefore, it is the intent to reduce fees beginning in fiscal 1998 to a level that will gradually reduce the working capital reserve to the four months balance (120 days) over a period of between five and six years rather than two years. If the working capital reserve were reduced to the four months balance by the end of fiscal 1999, we would then have to turn around and immediately increase fees by a rather significant amount beginning in fiscal 2000. Under either approach the local governments and OPI will pay the same amount over the five to six year period.

Service Levels - Based on the most current information available, 499 local government entities were required to have audits or financial reviews for fiscal 1994, and 502 for fiscal 1995. It is anticipated that the number of entities required to be audited each year will remain relatively constant. The program approves contracts for each required audit or financial review, monitors the audit or review progress, and receives copies of the final audit or review report. The program also reviews 100 percent of the audit and review findings and the entities' responses to or corrective action plans for those findings, and evaluates the adequacy of the responses or corrective action plans before determining whether or not to accept them. Audit and review findings and entity responses relating to state programs or state administered federal programs are referred to the appropriate state agency for action.

The audit review program conducts initial quality control reviews of 100 percent of the audits and financial review reports received, more detailed quality control desk reviews of approximately 10 to 20 percent and detailed quality control reviews of audit working papers for a limited number of audit reports based on staff time available.

In addition, approximately 900 local governments (excluding school districts and associated cooperatives) are required to file annual financial reports with the department each fiscal year. Information from these reports is utilized to determine whether an entity is required to be audited under state law.

Projected Fiscal 1999 Expenses/Expenditures

Personal Services - Fiscal 1997 personal services are estimated at the legislatively approved level. Fiscal 1998-99 projected personal services expenses are estimated at the fiscal 1997 level trended by 3 percent per year.

Operating Expenses - Fiscal 1997 operating expenses are estimated at the legislatively approved level. Fiscal 1998-99 projected operating expenses are estimated at the fiscal 1997 level trended by 3 percent per year and the inclusion of projected biennial audit costs.

Equipment Expenses - Fiscal 1997 equipment expenses are estimated at the legislatively approved level. Depreciation expenses are presented in the schedule instead of actual projected equipment costs.

Depreciation Expense - Fiscal 1997, 1998, and 1999 depreciation expenses are based upon the April 30, 1996, PAMS 180 report, which contains projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

The schedule does not use any cost factors in excess of the standard 3 percent trend factor.

Other Revenues - The audit review program does not receive any direct appropriations. Funding is derived entirely from report filing fee billed to local government entities and the OPI, and roster fees paid by certified public accounting firms.

ACCOUNTING ENTITY:	Number 06043	Name LGS Defalcation	AGENCY:	Commerce	PROGRAM:	LGS

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$31,652	$29,106	$105,626	$105,626	$137,278	$134,732
Increases						
Defalcation Audit Revenues	$65,000	$65,000	$0	$0	$65,000	$65,000
Decreases						
Operating Expenses	($65,000)	($65,000)	$0	$0	($65,000)	($65,000)
Depreciation/Amortization	(2,546)	(2,546)	0	0	(2,546)	(2,546)
Ending Total Fund Equity	$29,106	$26,560	$105,626	$105,626	$134,732	$132,186

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

To recover any special audit or review costs from auditd local government entities in order to ensure that sufficieot resources remain available for future special audits or review costs should such engagements be deemed necessary.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Defalcation Audit Revenues	$65,000	$65,000	$65,000	$65,000	2-7-503, MCA

Rate Explanation

Department of Commerce - Local Government Services Bureau

Fees, Rates, and Recovery - The department will solicit bids and contract with qualified CPA firms to conduct any special audits or reviews deemed appropriate and necessary by the Local Government Audit Review and Systems Bureau. The department anticipates that audit rates will be competitive and to some extent negotiable. It should be noted, however, that this type of audit engagements typically involve problematic entities and higher costs are a likely result. Since the state is responsible for contracting directly with the CPA firm conducting the special audit or review, it is essential that sufficient resources remain available to pay for such an audit engagement should one be deemed necessary. The department's cost recovery will be entirely dependent on the fiscal capacity of the audited local government entity. All reasonable efforts are made to recover special audit costs from audited entities.

Revenue Objective - The objective is to recover any special audit or review costs from audited local government entities in order to ensure that sufficient resources remain available for future special audits or review costs should such engagements be deemed necessary.

Projecting Future Expenses - It is extremely difficult, if not impossible, to project the number of defalcations, or allegations of extraordinary financial impropriety, that might require special audits or reviews in the future. The department is, therefore, projecting fiscal 1998 and 1999 appropriation levels at the same amount as those requested in the current biennium. State requested special audits and reviews are not those that can be easily planned for or, if they were, they could be more easily prevented. The appropriation authority and financial resources exist only to protect the taxpayers should their fiscal best interests be in jeopardy.

Other Revenues - The Defalcation Audit Program does not receive any direct appropriations. Funding is derived entirely from reimbursable special audit costs received from local government entities undergoing audits or reviews.

Weighted Average Rate Calculations - The schedule does not use any cost factors in excess of 1997 biennium appropriated amounts. Therefore, it appears that weighted average calculations would not be applicable.

Executive Present Law

The present law adjustments table is not presented for the Local Government Audit Review and Systems Bureau. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 Special Audits - The request of $65,000 each year of the 1999 biennium is to contract with private accounting firms to conduct special or defalcation audits of local governmental entities.

2) HB 576 Audit Review Professional Assistance - Reviews of audit reports and audit working papers are conducted to ensure local government audits are conducted according to standards. The department was not required to contract for any such reviews during fiscal 1996 so there is nothing in the base. The request is for $8,000 each year of the 1999 biennium to contract for a total of four reviews. During fiscal 1998 administrative rules will have to be amended to change references to required auditing standards. The filing fees and agency legal services charges are estimated to be $400 in fiscal 1998.

3) HB 576 Compliance and Reference Materials - After the legislative session and at other times when laws, rules, or regulations change, the department prepares an updated compliance supplement. In response to an increased number of requests for the supplement and increased printing costs, binders, and mailing boxes the net increase is $9,350 for fiscal 1998 and $5,150 for fiscal 1999.

4) HB 576 Independent Auditor Reviews - Reviews are conducted to determine whether local government audits have been conducted in accordance with applicable auditing standards, laws, rules, and regulations. The increase over the 1996 base is $1,200 and includes travel expenses and long-distance telephone calls in the 1999 biennium.

5) HB 576 Audit Forums - Due to scheduling and workload problems, no intergovernmental audit forums were attended in fiscal 1996. The request is for $1,027 in fiscal 1998 and $877 in fiscal 1999 to include commercial transportation and other travel expenses.

6) HB 576 Audit Review Equipment - The request for replacement software, computer manuals, printers, office equipment, and staff training manuals results in a net increase above the 1996 base of $6,027 in fiscal 1998 and $8,587 in fiscal 1999.

7) HB 576 Other Costs - Operating costs include printer maintenance contracts, indirect costs, and recharges for expenses of a net increase above the fiscal 1996 base of $6,114 in fiscal 1998 and $6,036 in fiscal 1999.

Program Description

The Local Government Assistance Administration Program provides the Local Government Services Division with professional administration and legal services. The program supervises both the Community Development Bureau and the Local Government Audit Review and Systems Bureau. Supervised programs include: Montana Coal Board; Community Development Block Grant Program; Community Technical Assistance Program; Hard Rock Mining Impact Board; Treasure State Endowment Program; Local Government Audit Review Program; and Local Government Accounting Systems Program.

The Local Government Assistance Administration Program operates/manages under multiple federal and state authorities enabling and mandating the individual programs functioning in the Local Government Assistance Division.

Funding

The function is funded through assessments on the programs in the Local Government Services Division.

ACCOUNTING ENTITY:	Number 06536	Name LGA Administration	AGENCY:	Commerce	PROGRAM:	LGA Admin

Description	FY 98 Fund Balance Unreserved	FY 99 Fund Balance Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	($36,253)	($22,331)	$0	$0	($36,253)	($22,331)
Increases						
LGA Admin Recharges	$155,000	$160,000	$0	$0	$155,000	$160,000
Decreases						
Personal Services Expenses	($128,877)	($132,743)	$0	$0	($128,877)	($132,743)
Operating Expenses	(12,201)	(12,211)	0	0	(12,201)	(12,211)
Ending Total Fund Equity	($22,331)	($7,285)	$0	$0	($22,331)	($7,285)

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The revenue objective of the LGA Division Administration program is to maintain the lowest possible fund balance and recharge cost to supervised divisions and programs

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
LGA Administrators Recharge Rate	1.41%	1.57%	1.77%	1.78%	Departmental allocation of Administrative Costs to Local Government Assistance Division

Rate Explanation

Department of Commerce - Local Government Assistance Administration

Revenue Objective - The revenue objective of the LGA Division Administration program is to maintain the lowest possible fund balance and recharge cost to supervised divisions and programs.

Fees, Rates and Recovery - The actual personal services costs of this administrative unit are charged to each of the supervised divisions and programs based upon the amount of time dedicated to the program. Recharges are billed on the basis of reported time on the pay period time sheets. Generally, administrative costs beyond those directly associated with personal services (indirect costs) have not been budgeted for in LGA Division Administration Program, but rather as those costs are incurred by either the administrator or the legal counsel. They are billed directly to the program with which that activity was associated. The negative fund balance is a function of either costs billed to the entity in conflict with the established budget or the fact that budgeted appropriations have not recognized liabilities such as compensated absences.

Projected Expenses/Expenditures

Personal Services - Fiscal 1997 personal services are estimated at the legislatively approved level. Fiscal 1998-1999 projected personal services expenses are estimated at the fiscal 1997 level trended by 3 percent per year.

Operating Expenses - Fiscal 1997 operating expenses are estimated at the legislatively approved level. Fiscal 1998-99 projected operating expenses are estimated at the fiscal 1997 level trended by 3 percent per year and the inclusion of projected biennial audit costs.

Depreciation Expense - Since there is not equipment on the general ledger this analysis does not include any projection for this expense.

The schedule does not use any cost factors in excess of the standard 3 percent trend factor.

Other Revenues - The LGA Division Administration Program does not receive any direct appropriations. Funding is derived entirely by charges to supervised divisions and programs.

The schedule does not use any cost factors in excess of the standard 3 percent trend factor. Therefore, it appears that weighted average calculations would not be applicable or necessary.

Executive Present Law

The present law adjustments table is not presented for the internal/enterprise fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 Replacement Equipment and Software - The request is for replacement of software and personal computers at $2,250 each year of the 1999 biennium.

Program Description

The Health Facility Authority, created by the 1983 legislature, is governed by a seven-member quasi-judicial board. Board members are appointed to four-year terms by the Governor with the advice and consent of the Senate. The authority was created to assist health care facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. These cost savings are shared with the health care consumer in the form of lower health facility fees. The Authority's operational costs are reimbursed with fees charged to the health facilities. No public funds are utilized by the authority.

The authority administers five financial programs: the Single Project Financing Program; the Pooled Loan Program; the Private Placement Program; the Master Loan Program; and the Direct Loan Program. Bonds issued under the programs of the authority do not constitute a debt or liability to the State of Montana or any political subdivision thereof.

The authority program is mandated in Title 90, Chapter 7, and Title 2, Chapter 15, MCA.

Funding

The function is supported through fees charged for loan applications and income from investments. The Authority collects fees from participating facilities in connection with making and servicing their debt.

LFD Issue **- A recent Legislative Audit Division audit report (November, 1996) cited the following compliance issues which surfaced regarding the Authority's fees and fee revenues:**

1) It was determined that although the Authority has broad authorization to issue bonds or incur other debt to carry out its purpose, it does not have the authority to establish a loan program from its fund balance. The Authority established the Direct Loan Program in fiscal year 1993-4, funded with excess revenues in its fund balance. According to the audit report, the Authority's revenues have exceeded operating costs during the past years of operation, thereby increasing the fund balance. By law, the Authority is allowed to retain excess revenues for operating reserves and reasonable allowances for losses that may be incurred. However, $500,000 in excess revenues have accumulated and these revenues have been funding the Direct Loan Program. 90-7-211, MCA, delineates the uses for which Authority fees may be used and does not provide authorization for the funding of the Direct Loan Program.

2) 90-7-317, MCA, specifies revenue which the Authority is to deposit into the reserve account, including investment income and revenues from fees and charges imposed by the Authority. This covers all fees and charges imposed by the Authority. However, Authority policy has been to require 50 percent of the Authority assessed annual fee for bonds enhanced by BOI to be deposited into the reserve account. The auditors recommended that clarification be sought on the interpretation of this section of the statute.

3) Due to lack of consistency in the charging of initial planning fees, the auditors recommended that the Authority revise its fee structure, which is established in administrative rule, to reflect the Authority's practice of charging fees based on estimated cost and to establish documentation procedures to ensure equitably imposed fees are charged by the Authority.

ACCOUNTING ENTITY:	Number 06015	Name MT Health Facilities	AGENCY:	Commerce	PROGRAM:	Health Facilities

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY99 Contributed Capital	FY98 Total Fund Equity	FY99 Total Fund Equity
Beginning Total Fund Equity	$1,306,973	$1,484,490	$0	$0	$1,306,973	$1,484,490
Increases						
STIP Earnings	$47,210	$48,626	$0	$0	$47,210	$48,626
Application Fees	64,375	66,306	0	0	64,375	66,306
Service Reimbursement	35,020	36,071	0	0	35,020	36,071
Annual Planning Service Fees	169,126	174,200	0	0	169,126	174,200
Invest Earnings: Direct Loan P	15,000	15,000	0	0	0	
BOI Capital Reserve Account	12,772	13,155	0	0	12,772	13,155
Decreases						
Personal Services Expenses	($94,720)	($96,452)	$0	$0	($94,720)	($96,452)
Operating Expenses	(70,663)	(67,491)	0	0	(70,663)	(67,491)
Depreciation/Amortization	(603)	(603)	0	0	(603)	(603)
Ending Total Fund Equity	$1,484,490	$1,673,302	$0	$0	$1,469,490	$1,658,302

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

FY97 Fund Equity Balance Requirement equals $1,654,125. See narrative

A Biennium Working Capital Account (administrative management and, unexpected and unbudgeted expenses, revenues fluctuations, bond defaults, litigation) $332,000.

B. Capital Reserve Account (Reasonable Allowante - $795,125

C. Direct Loan Program - $527,000

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
STIP Earnings	$44,500	$45,835	$47,210	$48,626	90-7-202 (5) MCA
Application Fees	$62,500	$62,500	$64,375	$66,306	90-7-211 MCA, and 8.120.206 ARM
Service Reimbursement	$34,000	$34,000	$35,020	$36,071	90-7-211 MCA, and 8.120.206 ARM
Annual Planning Service Fees	$162,893	$164,200	$169,126	$174,200	90-7-211 MCA, and 8.120.206 ARM
Invest. Earnings: Direct Loan	$13,000	$15,000	$15,000	$15,000	90-7-202 (5) MCA
BOI Capital Reserve Account	$9,108	$12,400	$12,772	$13,155	90-7-211, 90-7-202 (17), 90-7-317 MCA

Rate Explanation

Department of Commerce - Health Facilities Authority

The authority currently charges the following fees:

Single Project and Private Placement Financing Programs: (One Borrower)

Up to $1,000,000	.50% of the principal amount
$1,000,001--$5,000,000	$5,000 + .25%of the principal amount in excess of $1,000,000
Greater than $5,000,000	$15,000 + .1% of the principal in excess of $5,000,000

When an application is made to the authority by a participating health institution for financial assistance to provide for its facilities, the application may be accompanied by an initial planning service fee in an amount determined by the authority. Such initial planning service fee may be included in the cost of the facilities to be financed and is not refundable by the authority, whether or not an application is approved.

Pooled Loan and Master Loan Programs: (Multiple Borrowers)

Up to $5,000,000	.625% of the principal amount
$5,000,001 to $10,000,000	$31,250 + .3125% of the principal amount in excess of $5,000,000
Greater than $10,000,000	$46,875 + .125% of the principal amount in excess of $10,000,000.

Ten percent of the fee shall be paid to the authority upon submission of an application for financing. The balance of the fee shall be paid to the authority at or prior to the issuance of the bonds or notes or loan closure in one or more installments as determined by the authority upon approval of the application.

Annual Fees: (Applies to All Financing Programs)

The annual planning service fee shall be payable on the first and each succeeding anniversary date of the sale and issuance of the bonds or loans and shall be .15 percent of the principal amount of the bonds or notes or loan amounts outstanding on each such anniversary date.

Revenue Objective - Prudent management of the authority's financial affairs requires accumulation and maintenance of funds in excess of the current fiscal year operating requirements. Such funds are necessary to:

Provide current working capital to cover one biennium in order to support operations during periods of unusual or unexpected revenue fluctuation; meet unusual or unexpected, unbudgeted operating expenses or capital expenditures; fund extraordinary expenditures associated with bond/note issues of the authority, including fees and expenses of attorneys, advisors, and others; and provide resources to fund appropriate action as necessary to assist in preserving the credit-worthiness of the authority and its clients.

The estimated annual budget will be $166,000. Therefore, the working capital reserve will be $332,000. The unbudgeted expenses include litigation, bond defaults, feasibility studies, capital expenses in regard to the relocation of its office, and decreased application revenues associated with health care reform initiatives.

Provide a reasonable allowance for losses which may be incurred in connection with capital reserve agreements between the authority and the board of investments. These funds must be restricted for the purpose of curing a loan default under the master loan program. Currently the capital reserve requirement is 2.5 percent of the principal amounts of bonds outstanding which are enhanced by the board of investments. On June 30, 1996 the capital reserve requirement was $795,125. Based upon future bond issuance of $10,000,00 annually, the capital reserve requirement will be $1,045,125 in fiscal 1998 and $1,250,000 in fiscal 1999.

Provide a direct loan program which enables authority clients to receive short term loans at competitive interest rates.

These funds are board restricted and are currently capped at three times the current annual authority budget of $514,500. Currently, the direct loan program has $298,000 outstanding. Historically, the authority makes two-thirds loans, annually which range from $50,000 to $100,000 each; contingent upon available funds.

Projected Revenues and Expenses

Personal Services - The authority assumes the request for 1.00 FTE to be supported via a funding shift reduction in estimated operating expenditures will be approved. Therefore, 1999 *biennium projected personal services expenditures are estimated at the fiscal 1997 level trended by 3 percent per year and the addition of a 1.00 FTE.

Operating Expenses - The 1999 biennium projected operating expenses are estimated at the fiscal 1997 level trended by 3 percent per year, the inclusion and/or elimination of projected biennial audit costs, and the reduction of the 1.00 FTE funding shift request.

Depreciation Expense - The 1999 biennium depreciation and amortization amounts are based upon April 1996 PAMS 180 reports which contain projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

The schedule for the Montana Health Facility Authority does not use any cost factors in excess of the standard 3 percent trend factor described.

Other Revenues - The Montana Health Facility Authority does not receive any direct appropriations. Funding is derived primarily from revenues collected from initial and annual fees which are assessed to the program's clients for their individual financing needs.

Executive Present Law

The present law adjustments table is not presented for the internal/enterprise fund. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of proprietary account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies

1) HB 576 Bond Issuance & Legal Fees - The amount paid to the Department of Administration for state bond issuance and financial advisory fees is requested at the 1997 biennium appropriated level. The net increase is $14,300 each year of the biennium. In connection with the provision of legal services, there is an increase of $773 above the 1996 base each year of the 1999 biennium.

2) HB 576 Contract Administrative Support - The contract for administrative support services from the Board of Investments (BOI) will continue, but decrease by $20,631 each year of the 1999 biennium.

3) HB 576 Rent - The offices currently co-located with the BOI will move to new space in July, 1998. The increase in rent is $6,118 in fiscal 1999. Prior rent costs were expensed in a contract with BOI for $1,388.

Executive New Proposals

1) MHFA Workload Increase - During 1989, the authority recommended a reduction in FTE from 3.00 to 1.00 FTE. The operating expenses were further reduced by relocating to the Board of Investments (BOI) and contracting with the BOI for professional and administrative support. The business volume has grown ten percent annually since 1989. The present workload requirements have increased beyond the resource capability of the BOI. Funds currently allocated to the BOI for contracted services will be shifted to personal services. The request is for 1.00 FTE each year of the biennium.

ACCOUNTING ENTITY	Number 06030	Name Financial Programs	AGENCY:	Commerce	PROGRAM	Board of Housing

Description	FY 98 Retained Earnings Reserved	FY 99 Retained Earnings Reserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$86,763,472	$90,942,819	$0	$0	$86,763,472	$90,942,819
Increases						
Reservation Fees Single Family	$300,000	$300,000	$0	$0	$300,000	$300,000
Reservation Fees LITC	60,000	60,000	0	0	60,000	60,000
Mortgage Interest Single/Multi	25,300,000	24,300,000	0	0	25,300,000	24,300,000
Investment Income Single/Multi	13,000,000	13,000,000	0	0	13,000,000	13,000,000
Decreases						
Personal Services Expenses	($488,395)	($502,766)	$0	$0	($488,395)	($502,766)
Operating Expenses	(871,658)	(898,586)	0	0	(871,658)	(898,586)
Depreciation/Amortization	(40,600)	(42,400)	0	0	(40,600)	(42,400)
Other Decreases (Specify)						
Debt Service & Bond Servicing Exp	($32,000,000)	($31,000,000)	$0	$0	($32,000,000)	($31,000,000)
Servicer Fees	(1,080,000)	(1,070,000)	0	0	(1,080,000)	(1,070,000)
Ending Total Fund Equity	$90,942,819	$95,089,067	$0	$0	$90,942,819	$95,089,067

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Reservation Fees Single Family	1/2 of 1% of loan amount reserved.	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA
Reservation Fees Low Income Tax Credit (LITC) Program	4 1/2% of the tax credit reserved	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA
Compliance Monitoring Fees LITC	$5 per unit	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA
Extension Fees	1/4 of 1% of loan amount.	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA
Late Fees	1/2 of 1% of loan amount	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings.	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA and IRC Section 143(g)(2)
Post 1980 Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to bond yield	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA and IRC Section 143(g)(2)
Post 1986 Multifamily Programs	1 1/2% spread between mortgage interest rate and bond yield. Investment earnings limited to bond yield	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA and IRC reg 1.148-2(d)(2)(iii)
Pre 1980 Multifamily Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	Same fee as 1996	Same fee as 1996	Same fee as 1996	90-6-104, MCA and IRC Section 143(f)(2)

Rate Explanation

Department of Commerce - Housing Division

Revenue - The board charges the borrower a reservation fee of 1/2 of 1 percent of the loan amount that is reserved. The amount is paid by the borrower and locks in the reservation for a period of 120 days for existing housing and 180 days for new construction. If the lender extends the lock in period, the fee is one-fourth of 1 percent of the loan amount for each 30-day extension.

If the lender is late delivering the loan to the board for purchase, the board charges 1/2 of 1 percent of the loan amount for each 30 days after the 45 day submission period. The fees are charged to the originating bank because the board is not able to purchase the loan in a timely manner and the board incurs interest costs in funds outstanding.

These fees are not used to cover the operating expenses of the board. Under the trust indenture, they are required to be used to purchase additional mortgages. The fees are deferred and recognized as a revenue over the life of the mortgages. The amortization has resulted in income of approximately $300,000 per year. The amortization of this revenue has remained fairly constant over the last five years, and it is anticipated it will continue to do so.

For the tax credit program, the application fee is 1 and 1/2 percent and the reservation fee is 3 percent of the first year tax credit amount reserved by the board for each housing project. Application fees are currently only collected for projects that are approved at the application stage. Some projects are approved but never make it to the reservation stage so the reservation fee is never collected. The board is required to monitor these housing projects for compliance. Once the project is complete, the board charges $5 per housing unit per year. These fees are used to fund the administrative costs of the program which includes two employees that perform work one-half time for this program. It is anticipated the revenues will remain fairly constant.

Federal tax laws allow the board to earn a "spread" between the interest rates on the bonds and the interest rate the board charges on the mortgages. Tax laws have changed significantly since the first bond issue in 1977, so there are multiple rules related to the spread. The amount the board will earn is stated in each trust indenture. In addition, the official statement discloses the mortgage and bond interest rates, and investors rely on this information when purchasing the bonds. The underwriters structure each bond issue so that it is in compliance with tax regulations, and bond counsel give an opinion that the structure complies with tax regulations, including a certificate of arbitrage analysis which becomes part of the official documentation of the bond sale for bond issues outstanding the board earns 1 1/8 percent annually on single family mortgage bonds issued after 1980 and 1 1/2 percent on multifamily bond issues.

The board can earn interest on investments from single family bonds that were issued after 1980. The amount of interest income has dropped in the last few years and the projected revenues are based on a five year average and adjusted for current market conditions.

Interest income is received on reverse annuity (RAM) and cash assistance program (CAP) loans at a rate of 5 to 7 percent. Increased loan activity in each of these programs is anticipated and interest income projections have increased $1,000 a year for the next four years.

The board has an investment in the state short-term investment pool. This money is to be used for future RAM and CAP loans. Interest over the last three years has increased and interest earnings are estimated to increase by $1,000 per year.

Operating Expenses

Personal Services - For this analysis it is assumed that the requested 0.50 FTE and associated operating expenses will be approved. Therefore, projected personal services are estimated at the fiscal 1997 level trended by 3 percent per year and the addition of the 0.50 FTE.

Operating Expenses - Projected operating expenses are estimated at the fiscal 1997 level trended by 3 percent per year plus operating expenses included in the 0.50 FTE and the present law base rental increase. The analysis assumes the requests will approved. If the housing market in Montana reverses the trend of increasing values, an increase in the foreclosure costs and additional costs in administering real estate owned over those incurred in the current biennia

is anticipated.

Debt Service and Cost of Issuance - The projected costs are based on a five year average. The costs have trended downward over the last five years because the board has refunded several bond issues that had higher interest rates. In addition, as loans prepay, the prepayments are used to redeem bonds. As noted in the board's goals and objectives, the current asset management strategy is to use program earnings to call bonds or original net mortgages, thereby reducing the overall debt service costs over time.

Servicer Fees - There are fees that are paid to the institutions that service the board loans. These fees have trended downward during the last five years due to the rapid payoff of loans. Projected expenses have been reduced by $10,000 a year to reflect this downward trend.

Retained Earnings

Reserve Funds - As of June 30, 1995, the following amounts were required, by the trust indenture, to be held as security for the bondholders:

Debt Service Reserve - Single Family	$54,225,319
Mortgage Reserve - Single Family	3,932,983
Debt Service - Multifamily	845,804
Mortgage Reserve - Multifamily	256,813
Total	$59,260,919

The trustee is required to retain these amounts and must use these funds if the board defaults on any of its bond issues. The debt service reserve must be equal to the maximum amount of debt service for all bond issues. The mortgage reserve is either a fixed amount or 1 percent of the mortgages outstanding.

The debt service and mortgage reserves are from original bond proceeds and must be used, under the tax code, only to originate qualifying mortgages or to call bonds. The reserve fund proceeds cannot be used for any other purpose without destroying the tax-exempt nature of the bonds.

HUD Risk Sharing - HUD requires the board to retain $522,294 for its participation in the risk sharing program. The money is set aside to cover any defaults of multifamily loans, and must continue to be set aside within the indenture until the mortgages are paid off.

Loan Purchase Commitments - The board has committed to purchase $23,500,00 in single family mortgage loans. The loans will be purchased with funds the board currently has available within its indentures.

Housing Authority Enterprise Fund - The retained earnings in the housing trust fund are either fully committed to future RAM, CAP, or are pledged as additional security to the bondholders.

The board has $4,950,000 of subordinate bonds outstanding. Subordinate bonds must either be paid from the bond issue that they were issued under or they must be paid from general assets of the board. Therefore, if the board experiences substantial foreclosures, the board must have other funds that are not under a trust indenture.

Future Funds Use - The board intends to use any future funds from prepayments of loans or from program earnings to commit funds to loan programs that could not be administered under the bond programs because of tax regulations

related to the bonds; redeem bonds in order to lower the cost of the debt service of the board; maintain some excess debt service and mortgage reserve funds; retain earning to maintain current bond rating; and pursue the idea of obtaining a general obligation (G.O.) rating.

Executive Present Law

The present law adjustments table is not presented for the Board of Housing enterprise fund account portion of the Housing Division. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of enterprise account fees and charges. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including enterprise fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 MBOH Bond Software - The request in fiscal 1998 of $70,000 is for additional software for the MBOH accounting system. The board should be able to handle the increased workload without an increase in FTE, due to the efficiency of the technology.

2) HB 576 MBOH Computer Equipment - The proposal is to replace the computer system used for all board mortgage accounting. It is estimated the new computer and printer will save approximately $8,500 in maintenance contract costs during the first three years since the computer system comes with a three-year maintenance contract built into the cost. The computers tie to both the board mortgage accounting system and the local area network. The request is for $34,900 in fiscal 1998 and $23,900 in fiscal 1999.

3) HB 576 Rent Increase -The MBOH moved from private space into a larger facility so housing programs could be co-located and managed. The increase is for rent costs and the addition of separately paid janitorial costs and utilities. The request for the increase over the fiscal 1996 base is $6,000 in fiscal 1998 and $7,000 in fiscal 1999.

Executive New Proposals

1) HB 576 Workload Increase - The 1992 Congress began requiring state agencies administering the Low-Income Housing Tax Credit Program to monitor the compliance of all units financed under the program. The Montana Board of Housing requested a new computer system and reclassified a clerical position to a program specialist. This helped the board meet the requirements of the tax credit program, but it has left the board understaffed in the clerical area. Accounting staff have to do tasks that are more appropriate for a clerical employee. A 0.50 FTE is requested for $11,187 each year of the 1999 biennium.

Program Description

Board of Investments staff manage the unified investment program for public funds, required under Article VIII, Section 13 of the Montana Constitution. Five investment pools and several individual portfolios are managed. The five investment pools are: 1) the retirement fund bond pool; 2) the trust fund bond pool; 3) the short term investment pool; 4) the common stock pool; and 5) the convertible/preferred stock pool. Annual audited financial statements are prepared for each investment pool. All individual portfolios that do not invest in the pools are included in an "all other funds" financial statement.

The in-state investment program consists of Montana residential and commercial loans. The board is also responsible for administering several programs that issue bonds for the purpose of assisting local governments and eligible state agencies and encouraging economic development.

Board of investment responsibilities are mandated primarily in Title 17, Chapters 5 and 6, MCA; and the Montana Constitution.

Funding

The function is supported through: 1) charges to each portfolio that the board invests; and 2) a fee extracted from borrowers by increasing the spread between interest earned from loans and interest paid to bond holders, which is used to finance the bond program.

ACCOUNTING ENTITY	Number 06527	Name Investment Division	AGENCY:	Commerce	PROGRAM	BOI

Description	FY 98 Fund Balance Unreserved	FY 99 Fund Balance Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$168,112	$220,199	$11,060	$11,060	$179,172	$231,259
Increases						
BOI Admin Charge	$1,838,885	$1,830,000	$0	$0	$1,838,885	$1,830,000
Decreases						
Personal Services Expenses	($1,167,534)	($1,202,560)	$0	$0	($1,167,534)	($1,202,560)
Operating Expenses	(560,037)	(489,808)	0	0	(560,037)	(489,808)
Working Capital Equipment Expense	0	0	0	0	0	0
Other Decreases (Specify)						
Estimated Depreciation/Amortization	($20,986)	($20,986)	$0	$0	($20,986)	($20,986)
Department of Administration FTE	(38,242)	(39,390)	0	0	(38,242)	(39,390)
Ending Total Fund Equity	$220,198	$297,455	$11,060	$11,060	$231,258	$308,515

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The revenue objective of the Investment Program is to assess the costs of operations to each portfolio the Board invests while maintaing a reasonable and prudent 60 day working capital revenue

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
BOI Admin Charge	$1,681,963	$1,644,689	$1,838,885	$1,830,000	17--201(7), MCA

ACCOUNTING ENTITY:	Number 06014	Name Bond Programs	AGENCY:	Commerce	PROGRAM:	Board of Investments

Description	FY 98 Fund Balance Unreserved	FY 99 Fund Balance Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$212,014	$214,628	$23,478	$23,478	$235,492	$238,106
Increases						
Bond Fees/Revenues	$310,938	$307,489	$0	$0	$310,938	$307,489
Decreases						
Personal Services Expenses	($206,035)	($212,216)	$0	$0	($206,035)	($212,216)
Operating Expenses	(98,828)	(86,437)	0	0	(98,828)	(86,437)
Working Capital Equipment Expense	0	0	0	0	0	0
Other Decreases (Specify)						
Estimated Depreciation/Amortization	($3,460)	($3,460)	$0	$0	($3,460)	($3,460)
Ending Total Fund Equity	$214,629	$220,004	$23,478	$23,478	$238,107	$243,482

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

Three-fourths of program revenue is generated by a spread between the interest rates on bonds sold and the interest charged on loans made to eligible governments These revenues are received from the trustee anually. Consequently, a 270-day fund balance is required to fund the program between draws. The remaining revenues are received monthly via contract with the Health Facilities Authority.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Bond Fees/Revenues	$266,844	$257,039	$310,938	$307,489	17-5-1504(16), MCA

Rate Explanation

Department of Commerce - Board of Investments

Revenue Objective - Investment Programs: The revenue objective of the investment program is to assess the costs of operations to each portfolio the board invests while maintaining a reasonable and prudent 60 day working capital reserve.

Bond Programs: Approximately 75 percent of bond program revenues are generated from the spread between interest rates on bonds sold and the interest rate charged on loans made to eligible governments. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the bond program between draws. Remaining revenues are received monthly from the contract with the Montana Health Facility Authority. Nonbudgeted bond revenues and expenditures are not included in this analysis.

Custodial Bank Contract Fees Disclosure: The Board of Investments currently has a custodial bank trustee contract which is estimated to cost $425,000 in fiscal 1996. The estimates are custodial bank fees will increase by approximately 3 percent each year through fiscal 1999. The board charges the accounts it invests to pay the custodial bank fee. These charges are made monthly and are deposited in the general fund. The Department of Administration, via a statutory appropriation, pays the custodial bank fees. Since the custodial bank fees are deposited in the General Fund, and not in the Boards proprietary accounting entities, and the Department of Administration remits payment for these fees, they have not been included in the analysis of the Board of Investments proprietary accounting entities.

Estimated Annual Custodial Fees (For Disclosure Purposes Only):

1996	1997	1998	1999
425,000.00	437,750.00	450,883.00	464,409.00

Projected Expenses/Expenditures:

Personal Services - Fiscal 1997 personal services are estimated at 85 percent of the legislatively approved level for the Board of Investments. Fiscal 1998 and fiscal 1999 projected personal services expenses for both accounting entities is estimated at the fiscal 1997 level trended by 3 percent per year.

Operating Expenses - Fiscal 1997 operating expenses are estimated at 85 percent of the legislatively approved level for the Board of Investments for the accounting entity 06527 and 15 percent for accounting entity 06014. Fiscal 1998 and fiscal 1999 projected operating expenses for both accounting entities is estimated at the fiscal 1997 level trended by 3 percent per year and the inclusion of projected biennial audit costs.

Equipment Expenses - Fiscal 1997 equipment expenses are estimated at 85 percent of the legislatively approved level for the Board of Investments for accounting entity 06527 and 15 percent for accounting entity 06014. Depreciation expenses are presented in the instead of projected equipment costs.

Depreciation Expense - Fiscal 1997 depreciation expenses are based upon the April 1996, PAMS 180 report, which contains projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fascial, depreciation for this year is computed at the fiscal 1998 amount. Fiscal 1998 fiscal 1999 depreciation expenses are based upon the April 30, 1996, PAMS 180 report, which contains projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

The attached schedules does not use any cost factors in excess of the standard 3 percent trend factor.

Other Revenues - The Board of Investments does not receive any direct appropriations. Funding for accounting entity 06527 is derived entirely from charges to each portfolio that the board invests and is used to finance the investment program. Funding for accounting entity 06014 is derived from fees charged to borrowers by increasing the spread between the interest earned from loans and interest paid to bond holders and monthly revenues received from the Montana Health Facility Authority contract and is used to finance the bond programs. Non-budgeted revenues are used to finance statutorily appropriated debt service expenditures.

Executive Present Law

The present law adjustments table is not presented for the Board of Investments fund account. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of propriety account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 Replacement Equipment and Computers - The request is for replacement of six personal computers and software each year of the 1999 biennium. Replacement file cabinets, office partitions, and replacement desks are also requested. The cost is $40,500 in fiscal 1998 and $26,500 in fiscal 1999 paid for with proprietary fees the board charges accounts.

Program Description

The Montana Lottery was created in November 1986 by a referendum vote of the people of Montana. The lottery program designs and markets lottery games that allow players to purchase chances at winning a prize (23-7-102, MCA). The lottery presently offers a variety of instant (scratch) ticket games and three on-line games. Powerball and Tri-West Lotto are administered by the Multi-State Lottery Association. Montana Ca$h, the third on-line game, is administered by the Montana Lottery. A five-member lottery commission, appointed by the Governor, sets policy and oversees activities and procedures of the program. The Governor also appoints a lottery director who is responsible for coordinating lottery marketing, operations, security, and administrative efforts. A minimum of 45 percent of the revenues derived from the sale of lottery tickets is distributed to prizes. The remaining net revenue, after sales commissions and operating expenses, is deposited in the general fund on a quarterly basis.

Funding

The Montana Lottery program is funded with proprietary revenue derived from a portion of lottery proceeds.

ACCOUNTING ENTITY:	Number 06001	Name State Lottery Fund	AGENCY:	Commerce	PROGRAM	MT Lottery

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$0	$0	$239,043	$239,043	$239,043	$239,043
Increases						
Instant Tickets/Without Propos	$5,290,000	$4,866,800	$0	$0	$5,290,000	$4,866,800
Instant Ticket/effect of New Pr	4,549,400	5,840,160	0	0	4,549,400	5,840,160
On-Line Tickets	25,541,250	25,541,250	0	0	25,541,250	25,541,250
Interest Earnings	200,000	200,000	0	0	200,000	200,000
Other Increases (Specify)						
License Fees	$2,500	$2,500	$0	$0	$2,500	$2,500
Decreases						
Personal Services Expenses	($1,255,709)	($1,293,380)	$0	$0	($1,255,709)	($1,293,380)
Operating Expenses/Without Pr	(5,247,698)	(5,101,657)	0	0	(5,247,698)	(5,101,657)
Operating/Effect of New Propo	(685,000)	(715,000)	0	0	(685,000)	(715,000)
Depreciation/Amortization	(55,732)	(55,732)	0	0	(55,732)	(55,732)
Cost of Goods Sold Adjustment	29,310	(9,730)	0	0	29,310	(9,730)
Other Decreases (Specify)						
Stat Approp. Commissions/Pri	($19,952,151)	($20,517,801)	$0	$0	($19,952,151)	($20,517,801)
Transfers to General Fund	(8,416,170)	(8,757,410)	0	0	(8,416,170)	(8,757,410)
Ending Total Fund Equity	$0	$0	$239,043	$239,043	$239,043	$239,043

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

23-7-402(3), MCA, requires the Montana Lottery to transfer all net revenue quarterly to the State General Fund Our analysis reflects compliance with this requirement, as the fund equity balance only includes contributed capital.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Instant Tickets (Except Bingo)	$1.00	$1.00	$1.00	$1.00	Commission-23-7-202(5)
On-Line Tickets	$1.00	$1.00	$1.00	$1.00	Commission-23-7-202(5)
License Fee	$50.00	$50.00	$50.00	$50.00	23-7-301(5)
Instant Tickets-Bingo	$2 00	$2.00	$2.00	$2.00	Commission-23-7-202(5)

Rate Explanation

Department of Commerce - Montana State Lottery

Projected and Historical Service - Since fiscal 1993 the Lottery has experienced a steady decline in instant ticket sales, averaging approximately 10 percent per year. Many factors have contributed to this decline, including more competition for the entertainment dollar, less promotion and advertisement of the product, and player apathy resulting from the perception that there are few winners and the games are all the same. It is anticipated that sales will continue to decline at the rate of approximately 8 percent per year unless changes are implemented. The lottery intends to begin a more aggressive advertising and promotional effort in support of this product. In addition, the lottery is proposing to fully implement a multiple game strategy in fiscal 1997. This strategy has consistently resulted in sustained sales increases in other lottery states. The elements of this strategy and the related costs are explained in the executive new proposals.

On-line ticket sales peaked in fiscal 1994 at approximately $29.6 million. The lottery experienced a decline in sales from fiscal 1994 to fiscal 1995 of approximately 14 percent. At this time the lottery is projecting that total fiscal 1996 on-line sales will approximate the level achieved in fiscal 1995 and that this level of sales will continue through the 1999 biennium. The lottery will, however, continue to review enhancements, modifications or replacements to its existing on-line games with the objective of increasing sales.

Revenue Objective - The lottery is statutorily mandated to maximize the net revenue paid to the state under and ensure that all policies and rules adopted further revenue maximization. The Lottery pursues attainment of this mandate, while recognizing the state's responsibility to provide socially responsible games. Striving to strike a balance between these two conflicting objectives often results in decisions to not offer new products or strategies that would likely result in increased sales, but may be viewed by some as an expansion of gaming. Full implementation of the multiple game strategy for instant ticket games is an action that strikes a balance between these two objectives.

Projected Expenses/Expenditures

Personal Services - Fiscal 1997 personal services expenditures are estimated at the legislatively approved level. Fiscal 1998-99 projected personal services expenses are estimated at the fiscal 1997 level trended by 3 percent per year.

Operating Expenses - Fiscal 1997 operating expenses are estimated by the Montana Lottery at the actual projected expenditure amount, not previously approved operating plans. Fiscal 1998-99 operating expenses are estimated by the Montana Lottery at the fiscal 1997 projected amount trended by 3 percent per year.

Equipment Expenses - Fiscal 1997 equipment expenses are estimated at the legislatively approved level. Depreciation expenses are presented in the instead of actual projected equipment costs.

Depreciation Expense - Fiscal 1997 depreciation/amortization expenses are based upon the April 1996 PAMS 180 report, which details projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

Statutory Expenses - Fiscal 1997, fiscal 1998, and fiscal 1999 statutorily authorized expenditures are estimated by the Montana Lottery at the level anticipated and supported by projected revenues.

The schedule does not use any cost factors in excess of the standard 3 percent trend factor.

Other Revenues - The Montana Lottery does not receive any direct appropriations. Funding is derived primarily from the sale of lottery tickets, lottery retailer licensing fees, and interest earnings.

Executive Present Law

The present law adjustments table is not presented for the Montana Lottery fund account. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of propriety account rates, fees, charges, and prices. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including proprietary fund accounts, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 Replacement Vehicles - The request is for replacement of two vehicles each year of the 1999 biennium. The cost is $30,500 in fiscal 1998 and $32,000 in fiscal 1999. Funding is propriety fees derived from the sale of lottery tickets.

2) HB 576 Instant Ticket Printing - The request is for authority in the 1999 biennium at an increased level of $292,775 in fiscal 1998 and $368,940 in fiscal 1999. In anticipation of the approval of the new instant ticket strategy change, which requires adding bar coding to tickets, the majority of the instant ticket stock was depleted during fiscal 1996. The lottery traditionally printed over one million tickets for each game. The strategy held the printing costs down but forced the lottery to leave games on sale for long periods of time. Printing smaller quantities of each game has nearly doubled the printing costs. The total request is for $642,775 in fiscal 1998 and $718,940 in fiscal 1999 to bring the authority to the 1997 biennium and add the additional printing costs. Funding is from fees derived from the sale of lottery tickets.

LFD Comment **- Please refer to the LFD issue in the new proposal section.**

Executive New Proposals

1) HB 576 Instant Ticket Strategy Change - The request is for additional authority in the 1999 biennium to provide an automated instant ticket validation and accounting system. The plan will be implemented in November 1996 through the on-line vendor contract. The cost of the system is based upon a percentage of instant ticket sales.–The new costs of the system will be absorbed in the fiscal 1997 budget, but if instant ticket sales increase as anticipated, the costs of the system in the 1999 biennium will exceed the base budget. The request is for $335,000 in fiscal 1998 and $365,000 in fiscal 1999 paid for with propriety funds from the sale of lottery tickets.

2) HB 576 900 Number - The request is for additional budget authority in the 1999 biennium for costs associated with providing a 900 number calling service for lottery winning numbers notification. It is anticipated the telecommunication expenses associated with providing the 900 number service will be recovered through the user fee. The request is for $245,000 each year of the biennium paid for with propriety funds from the sale of lottery tickets.

LFD Comment **- The Lottery currently provides an 800 number calling service to disseminate Lottery winning number information. The department submitted a cost comparison analysis regarding this proposal which compared current costs of the 800 number system with the projected costs of the 900 service. The fiscal year 1996 costs for the 800 service were identified as $118,000. The department justifies the much larger costs of the 900 service based on the anticipated cost recovery through user fees. The analysis, based on various assumptions, indicated that fees would eventually generate revenues in excess of costs, resulting in a net financial benefit.**

3) HB 576 Daily Game - Additional authority is requested to continue operation of a new on-line game. The game was developed and implemented during fiscal year 1997. Research indicates that a daily on-line game in Montana may be successful. The anticipated net revenue increase is approximately $2 million each year of the 1999 biennium. The cost increase to have auditors present for drawings seven days a week, additional advertising, and increased vendor fees is $286,000 in fiscal 1998 and $295,300 in fiscal 1999.

LFD Issue **- 23-7-202(3), MCA, requires the Montana Lottery Commission to maximize net revenue paid to the general fund, and to ensure that all policies and rules further that maximization. To comply with statute, any change in policy that increases costs or any request to increase expenditures must not only increase net revenue, but must maximize that revenue. The commission must demonstrate that such measures provide the best possible positive net return over all other uses of the money.**

The executive is requesting new proposals totaling $1,771,300 in additional appropriation authority to expend over the 1999 biennium to promote the lottery. Discussions with agency staff indicate that due to less than ideal net profits to the Lottery in recent years, and as compared with other state lottery returns,

management's efforts to increase the net profit to the general fund are the reason for various strategy changes and additional program costs. However, the department should provide substantiation for these programs to determine whether the investment of $1.8 million that would ordinarily go to the general fund will result in eventual revenues that exceed this level.

Table 9 shows revenues and disbursements since the Montana State Lottery was established in November 1986. Fiscal 1996 was the first year profits were disbursed to the general fund instead of the Office of Public Instruction and the Board of Crime Control. The table shows cost to sales ratios continued to increase in fiscal 1996. The increases in administrative costs are due primarily to additional personal services costs associated with the sales staff incentive plan and increased advertising. The increased administrative expenditures did not generate increased revenues. In an era of negative cost trends, the legislature may wish to have a cost/benefit analysis submitted on each new proposal.

Table 9
Department of Commerce
Montana State Lottery

	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996
Revenue									
Ticket Sales	$21,787,581	$11,644,061	$21,502,463	$23,931,378	$27,921,939	$36,762,830	$37,482,784	$32,758,418	$31,761,414
Other	5,900	3,600	11,524	14,230	(2,109)	5,055	2,500	4,912	(32,709)
Interest	0	0	25,773	40,252	95,184	116,432	121,863	201,396	243,019
Retained Earnings	753,617	(139,435)	(29)	0	0	0	0	47,460	0
Total Revenue	$22,547,098	$11,508,226	$21,539,731	$23,985,860	$28,015,014	$36,884,317	$37,607,147	$33,012,186	$31,971,724
Disbursements									
Prizes	$9,807,415	$5,300,097	$10,189,328	$11,658,822	$13,551,007	$17,742,517	$18,148,490	$16,151,852	$15,914,300
Retailer Commissions	1,210,074	669,313	1,352,477	1,346,955	1,609,178	2,058,730	2,068,256	1,803,629	1,765,565
Operating	3,275,128	2,763,240	5,828,528	6,781,773	7,269,968	8,200,952	8,026,656	6,415,232	6,536,257
Other	18,022	913	540	(2,027)	2,027	0	0	0	0
Profit-SEA	8,375,894	2,774,692	4,168,858	4,200,337	5,493,509	8,073,845	8,511,644	7,811,958	0
Profit-Crime Control	0	0	0	0	89,325	808,273	852,101	782,055	0
General Fund									7,803,062
Total Expenses	$22,686,533	$11,508,255	$21,539,731	$23,985,860	$28,015,014	$36,884,317	$37,607,147	$32,964,726	$32,019,184
Ratios									
Total Costs to Sales	0.1503	0.2373	0.2711	0.2834	0.2604	0.2231	0.2141	0.1958	0.2058
Prizes/Sales	0.4501	0.4552	0.4739	0.4872	0.4853	0.4826	0.4842	0.4931	0.5011
Commissions/Sales	0.0555	0.0575	0.0629	0.0563	0.0576	0.0560	0.0552	0.0551	0.0556
Profit/Sales	0.3844	0.2383	0.1939	0.1755	0.1999	0.2416	0.2498	0.2623	0.0000
Profit/Expenditures	0.5853	0.3177	0.2400	0.2123	0.2489	0.3172	0.3315	0.3526	0.0000
Sales/Expenditures	1.5225	1.3333	1.2378	1.2095	1.2447	1.3129	1.3271	1.3442	1.3116

Program Description

The Directors's Office and Management Services consists of two programs: 1) the Director's Office Program assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in an effort to improve and stabilize the economic climate in Montana; the chief legal counsel provides legal advice to the department director and legal supervision and overview for all other agency attorneys; and 2) the Management Services Program provides internal support to all agency programs, including accounting and fiscal, budgeting, contracting and purchasing, personnel administration, payroll, training, and the analysis, development, maintenance, and supervision of department data processing systems and hardware.

Funding

Funding for the Director's Office/Management Services Division is derived through charges allocated to supported programs via the department indirect cost plan. Indirect costs are allocated to supported programs based upon a federally-approved indirect cost rate. State funded Commerce programs are charged a percentage based on fully-funded personal services costs. The following table provides specific program cost allocations to be charged in the 1999 biennium as compared with fiscal 1996 charges. The primary reason for the significant increase is that collections in fiscal 1996 were less than the appropriation, as the fund balance was being drawn down.

Table 10
Management Services Division
Indirect Administrative Charges

Divisions/Bureaus	Indirect Charges FY 1996 Actuals	Revised Charges FY 1998	$ Increase	% Increase	Revised Charges FY 1999	$ Increase	% Increase
02 Weights & Measures	$24,054	$33,209	$9,155	38%	$33,045	$8,991	37%
36 Banking & Financial Inst.	60,419	85,856	25,437	42%	85,212	24,793	41%
39 POL Bureau	118,270	178,749	109,849	93%	177,330	107,128	91%
51 Economic Development	60,011	65,001	4,990	8%	63,669	3,658	6%
52 Montana Promotion	56,420	74,474	18,054	32%	73,972	17,552	31%
60 Community Development	34,318	41,955	7,637	22%	41,822	7,504	22%
62 Local Govt. Services Bureau	29,402	37,836	8,434	29%	37,581	8,179	28%
64 Local Govt. Assistance Admin.	8,356	11,806	3,450	41%	11,732	3,376	40%
65 Building Codes Bureau	110,182	145,735	35,553	32%	145,212	35,030	32%
71 Health Facilities Authority	4,194	8,687	4,493	107%	8,601	4,407	105%
73 Science & Technology Alliance	14,050	21,547	7,497	53%	21,372	7,322	52%
74 Housing Division	68,331	86,840	18,509	27%	86,653	18,322	27%
75 Board of Investments	97,949	128,715	30,766	31%	127,614	29,665	30%
77 Montana Lottery	91,300	111,785	20,485	22%	110,960	19,660	22%
78 Board of Horse Racing	7,888	11,421	3,533	45%	11,315	3,427	43%
79 Consumer Affairs	6,830	8,495	1,665	24%	8,436	1,606	24%
Total	$791,974	$1,052,111	$309,507	39%	$1,044,526	$300,620	38%

ACCOUNTING ENTITY:	Number 06542	Name Management Services	AGENCY:	Commerce	PROGRAM	Management Services
Description	FY 98 Fund Balance Unreserved	FY 99 Fund Balance Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$31,411	$90,158	$22,267	$22,267	$53,678	$112,425
Increases						
Indirect Cost Recovery	$1,025,000	$1,050,000	$0	$0	$1,025,000	$1,050,000
Decreases						
Personal Services Expenses	($812,036)	($836,397)	$0	$0	($812,036)	($836,397)
Operating Expenses	(132,952)	(136,941)	0	0	(132,952)	(136,941)
Other Decreases (Specify)						
Estimated Depreciation/Amorti	($21,264)	($21,264)	$0	$0	($21,264)	($21,264)
Ending Total Fund Equity	$90,159	$145,556	$22,267	$22,267	$112,426	$167,823

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

The revenue objective of the Director's OPffice/Management Services Division of the Department of Commerce is to maintain the lowest possible indirect cost charge to supported programs while attempting to maintain a reasonable and prudent

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Federal Programs IDC Rate	8.20%	8.20%	9.68%	9.63%	Federally negotiated Indirect Cost Plan. FY 98-99 Estimated Federal Negotiation
State Programs IDC Rate	7.75%	8.20%	9.68%	9.63%	

Rate Explanation

Department of Commerce - Director/Management Services

Allocation Methodology - Indirect costs are allocated to supported programs via a standard indirect cost rate that is applied to supported programs actual personal services expenditures. For the analysis, the April 1996 indirect cost revenues as recorded in SBAS were used to project estimated fiscal 1996 actual personal services expenditures. Estimated fiscal 1996 actual personal services expenditures were then trended by 3 percent annually to derive the estimated fiscal 1997, fiscal 1998, and fiscal 1999 actual personal services expenditures. The analysis assumes no significant variances on underlying personal services vacancy amounts from the fiscal 1996 base year. The indirect cost rate is calculated by dividing the projected annual revenue required to meet anticipated yearly expenditures and maintain a 60 day working capital reserve for the Director's Office/Management Services Division by the projected actual personal services amounts estimated to be incurred by the supported programs in the department. The contributed capital includes office furniture and equipment.

The Director's Office/Management Services Division does not typically receive any direct appropriations. The funding is derived entirely by indirect cost charges allocated to supported programs via the indirect cost plan.

Projected 1999 Biennium Expenses/Expenditures - During fiscal 1996, the department consolidated 1.16 FTE existing programmer analysis positions into the division and transferred 1.00 FTE existing HB 2 position from the Coal Board program. The transferred FTE was used to create an Information Officer position. Indirect cost rates to supported programs, which were implicitly approved by the last legislature, were not changed. The analysis assumes that these previously approved FTE consolidations and transfers are permanent. Personal services for fiscal 1997 and the following fiscal years

are, therefore, estimated at the adjusted fiscal 1996 level trended by 3 percent per year.

Operating expenses are projected at the previously approved level trended by 3 percent per year.

Equipment expenses are based upon present law base replacement items detailed in executive present law.

Depreciation and amortization amounts are based upon the April, 1996, PAMS 180 reports which contain projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

The department traditionally allocates fixed costs to department programs by various allocation methods. The department did not have sufficient information as to the amounts to be charged in the 1999 biennium to perform the calculations at the time the schedule was prepared.

The schedule does not use any cost factors in excess of the standard 3 percent trend factor; therefore, it appears that weighted average calculations would not be applicable.

Executive Present Law

The present law adjustments table is not presented for the Director's Office and Management Services Division, an internal service fund account. The concept of individual present law adjustments is not necessarily significant to decision-making in regard to the reasonableness of internal service fund rates. However, narrative for significant present law adjustments is presented for explanatory purposes. Statewide adjustments are standard categories of adjustments made to all agencies, including internal service fund account, and legislative decisions on these items will be applied globally to all agencies.

1) HB 576 Replacement Equipment - The request is for replacement of personal computers and software, uninterruptible power supply, upgrade of the server, memory upgrades, and replacement office equipment. The net increase in cost is $28,187 in fiscal 1998 and $11,987 in fiscal 1999.

2) HB 576 Foreign Travel - The director travels abroad to represent and promote the State of Montana with foreign governmental officials and business leaders. The increase in cost over the 1996 base is $1,205 each year of the 1999 biennium.

3) HB 576 Operating Expenses - The net increase cost of temporary office help during critical workload periods is $382 while there is a net decrease in the cost of consultant and professional fees. Management services has been delegated with all personnel classification responsibilities. The base year expenditures are low because the budget officer performed some of the classification work. During fiscal 1997, the budget planning and processing work did not permit the classification work by the budget officer and outside contract help was hired. The net increase for the 1999 biennium is $6,262. In the director's office the need to hire outside consultants decreased by $9,500 each year of the 1999 biennium.

ACCOUNTING ENTITY	Number 6033	Name MCE RANCH	AGENCY	Corrections	PROGRAM	T Correctional Enterprises

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$6,365,196	$6,165,904	$0	$0	$6,365,196	$6,165,904	$6,498,189
Increases							
Crops Revenue	$35,000	$35,000	$0	$0	$35,000	$35,000	$35,000
Dairy Revenue	1,178,408	1,178,408	0	0	1,178,408	1,178,408	1,178,408
Range Cattle Revenue	750,000	750,000	0	0	750,000	750,000	750,000
Decreases							
Personal Services/Inmate Pay	($722,610)	($731,860)	$0	$0	($722,610)	($731,860)	($699,494)
Operating	(1,265,090)	(1,279,719)	0	0	(1,265,090)	(1,279,719)	(1,221,907)
Depreciation/Amortization	(175,000)	(175,000)	0	0	(175,000)	(175,000)	(175,000)
Livestock Inventory Change	0	0	0	0	0	0	0
Ending Total Fund Equity	$6,165,904	$5,942,733	$0	$0	$6,165,904	$5,942,733	$6,365,196

SPECIAL NOTES:
-Revenue and Expenditures for FY-98 & 99 per the base legislative budget submitted and does not include equipment. Depreciation based on past years amounts
-Revenue for FY-97 adjusted down to FY-98 projected level due to poor cattle prices. Expenditures other than depreciation per the FY-97 legislative budgets
-Fund Balance will increase above with any capital/equipment expenditures which are not reflected Depending on the livestock valuation the fund balance will increase or decrease accordingly
-Cash account and revenue will determine the actual expenditure level and the ultimate effect on fund balance.

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

-The Ranch cash account and net income will determine activities and expenditure levels on the Ranch Current cattle prices will result in a loss of revenue from past fiscal years.
-The expenditure levels reflected will not be all incurred if not needed and may result in a increase in fund balance and the Ranch's cash account
-Fund balance dollar value is somewhat meaningless for yearly Ranch operations as a majority of investments needed to get the Ranch where it is at have already been made.
-Overall objective is to maintain adequate cash reserves for present/future needs and contingencies, while operating as effectively as possible

Rate Explanation

Department of Corrections - Montana Correctional Enterprises

Ranch and Dairy HB 576 - The Montana Correctional Enterprises (MCE) Ranch located at the MSP is an enterprise fund (revolving account). The appropriation level requested for the 1999 biennium is based on current operations being maintained with limited increase in crop acreage and livestock numbers over the fiscal 1996 base year. Expenditures made in all operations are expended on cash flow available, economic return, weather/other conditions, and discussion with the Ranch Advisory Committee. Appropriation authority only is being requested for the MCE. If authority is not needed, expenditures will not be made. The proposed base program is 12.75 FTE and $1,982,096 in fiscal 1998 and $2,005,825 in fiscal 1999.

LFD Comment **- MCE's ranch enterprise revenues are based on the market value of its products. Based on the projected revenues and expenditures listed in the account entity table, the fund equity for MCE ranch will decrease during the fiscal 1999 biennium.**

ACCOUNTING ENTITY:	Number 6034	Name MCE INDUSTRIES	AGENCY	Corrections	PROGRAM MT Correctional Enterprises		
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$1,243,677	$1,637,741	$255,192	$255,192	$1,498,869	$1,892,933	$1,690,597 (Includes contributed capital)
Increases							
INDUSTRIES Revenue	$4,602,148	$5,522,577	$0	$0	$4,602,148	$5,522,577	$3,835,123
Decreases							
Personal Services/Inmate Pay	($1,126,806)	($1,173,009)	$0	$0	($1,126,806)	($1,173,009)	($1,289,591)
Operating	(1,536,268)	(1,538,589)	0	0	(1,536,268)	(1,538,589)	(2,607,260)
Depreciation/Amortization	(130,000)	(130,000)	0	0	(130,000)	(130,000)	(130,000)
Inventory Change	(100,000)	(100,000)	0	0	(100,000)	(100,000)	0
Modified Request-Add Auth	(1,315,010)	(2,189,418)	0	0	(1,315,010)	(2,189,418)	0
Ending Total Fund Equity	$1,637,741	$2,029,302	$255,192	$255,192	$1,892,933	$2,284,494	$1,498,869

SPECIAL NOTES
·Revenue and Expenditures for FY-98 & 99 per the base legislative budget submitted and does not include equipment Depreciation based on past years amounts
·Fund Balance will increase above with any capital/equipment expenditures which are not reflected. A number of major equipment expenditures to occur in 1999 Biennium
·Cash account and actual revenue will determine the actual expenditure level and the ultimate effect on fund balance
·Experience in FY-95 and FY-96 shows overall profit margin not as high as projected above and as a result figures reflected per budget request may be more optimistic than actual.
·Beginning fund balance FY-88 made up of $1243677 and $255192 in contributed capital for a total of $1498869 to tie to FY-97 projected ending balance

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):
·The Industries cash account and net income will determine activities and expenditure levels on the Industries.
·The expenditure levels reflected will not be all incurred if not needed and may result in a increase in fund balance and the Industries' cash account.
·Fund balance dollar value is somewhat meaningless for yearly Industries operations as sales, cash available, production requirements and inventories determine Industries activity
·Overall objective is to maintain adequate cash reserves for present/future needs and contingencies, while operating as effectively as possible.
·Prices charged if not competivtive or below market will result in lost sales and as a result a negative operating position

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Regular Industries Operations Product Costs Charged on an Individual Basis					53-1-301 (1E) MCA
Laundry Rate to MSP	$0.37/LB	$0.37/LB	$0.37/LB	$0.37/LB	53-1-301 (1E) MCA
Laundry Rate to MSH	$0.36/LB	$0.36/LB	$0.36/LB	$0.36/LB	53-1-301 (1E) MCA
Laundry Rate to MDC		$0.46/LB	$0.46/LB	$0.46/LB	53-1-301 (1E) MCA

NOTE: Breakeven cost on laundry at this time is approximately $ 33/lb without delivery costs
Difference for MDC laundry costs is in the delivery costs

Rate Explanation

Department of Corrections - Montana Correctional Enterprises

Industries Program Revolving Account HB 576 - The Industries Program located at the MSP and the Women's Correctional Center (WCC) is an enterprise fund (revolving account). The appropriation level requested is based on projected sales levels and FTE. Actual expenditures will be dependent on current work level, sales level, and the cash flow of the operations. The request is for appropriation authority for this revolving fund operation. The laundry rates for MSP remain at $0.37/LB, as do the rates at Montana State Hospital of $0.36/LB. Rates for Montana Development Center will begin in fiscal 1997 at $0.46/LB and continue each year of the 1999 biennium. There is no general fund in the operation. Adequate appropriation levels are essential for continuation of this program on an uninterrupted basis. The proposed base program is 21.75 FTE and $2,710,357 in fiscal 1998 and $2,759,747 in fiscal 1999.

LFD Issue - **MCE's laundry enterprise revenues are based on the volume of laundry and the rates charged. Based on the projected revenues and expenditures listed in the account entity table, the fund balance will increase $785,625 during the 1999 biennium. This amount represents a 52 percent increase. If it is not the legislature's intent for MCE's laundry to operate at this profitable rate, it may wish to consider revising the per pound rate. According to MSP personnel, any profits are maintained within the account and used to support future enterprise operations. No laundry funds are used for other prison operations.**

ACCOUNTING ENTITY:	Number 06546	Name Centralized Service Division	AGENCY: Labor and Industry		PROGRAM:	Commissioner's Office/ Centralized Services
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$92,976	$73,976	$0	$0	$92,976	$73,976
Increases						
Revenue: Cost Allocation Plan	$1,604,501	$1,652,636			$1,604,501	$1,652,636
Revenue: Misc	900	900			900	900
Decreases						
Personal Services Expenses	($1,299,646)	($1,338,635)			($1,299,646)	($1,338,635)
Operating Expenses	(289,710)	(298,401)			(289,710)	(298,401)
Depreciation/Amortization	(25,045)	(25,526)			(25,045)	(25,526)
Other Decreases (Specify)						
Compensated Absences	($10,000)	($10,000)	$0	$0	($10,000)	($10,000)
Ending Total Fund Equity	$73,976	$54,950	$0	$0	$73,976	$54,950

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

Fund Equity balance objective is to have enough cash on hand to pay expenditures as they occur and be in compliance with A-87.
To be in compliance with A-87 no more than 60 days working capital may be on hand.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Draws from Programs	$1,280,698	$1,417,343	$1,604,501	$1,652,636	Administrative
Jury Duty	800	0	0	0	Administrative
Cafeteria	900	900	900	900	Administrative
Building Oversite	20,325	0	0	0	Administrative
Misc	4,955				

Rate Explanation

Department of Labor and Industry -- Commissioner's Office/CSD

The Commissioner's Office and the Legal/Centralized Services Division are funded through a cost allocation plan wherein the various other Department of Labor and Industry programs are assessed a percentage of their personal services costs in order to support central functions. The services provided through this accounting entity are administration, accounting, purchasing, budgeting, personnel and training, mail distribution, and information services. It is anticipated that the assessment will be approximately 7.64 percent in fiscal 1998 and fiscal 1999.

ACCOUNTING ENTITY	Number 06547	Name Information Services Bureau	AGENCY	Labor and Industry	PROGRAM	Legal/Centralized Services

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$55,156	$53,156	$17,394	$17,394	$72,550	$70,550
Increases						
Revenue	$69,256	$71,334	$0	$0	$69,256	$71,334
Decreases						
Personal Services Expenses	(55,405)	(57,067)	0	0	(55,405)	(57,067)
Operating Expenses	(13,851)	(14,267)	0	0	(13,851)	(14,267)
Depreciation/Amortization	($2,000)	($2,000)	$0	$0	($2,000)	($2,000)
Ending Total Fund Equity	$53,156	$51,156	$17,394	$17,394	$70,550	$68,550

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

Fund Equity balance objective is to have enough cash on hand to pay expenditures as they occur and be in compliance with A-87
To be in compliance with A-87 no more than 60 days working capital may be on hand

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Draws from Programs	$182,459.00	$67,239.00	$69,256.17	$71,333.86	Administrative

The Legal/Centralized Services Division also recovers the costs of a unit called the Input/Output Control-Operations function. The purpose is to provide traffic control of input for mainframe programming and of output reports. There is a direct charge to the divisions utilizing this service and users are billed quarterly, based on services received.

ACCOUNTING ENTITY:	Number 06051	Name Career Informaion System	AGENCY:	Labor and Industry	PROGRAM:	Job Service

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$26,796	$23,539	$0	$0	$26,796	$23,539
Increases						
Revenue: MCIS licenses	$137,000	$137,000	$0	$0	$137,000	$137,000
Decreases						
Personal Services Expenses	($71,695)	($73,845)	$0	$0	($71,695)	($73,845)
Operating Expenses	(66,094)	(68,077)	0	0	(66,094)	(68,077)
Depreciation/Amortization	(1,725)	(2,300)	0	0	(1,725)	(2,300)
Nonbudgeted Expense (Comp Absence)	(743)	(765)	0	0	(743)	(765)
Ending Total Fund Equity	$23,539	$15,552	$0	$0	$23,539	$15,552

SUMMARY OF FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE:

Montana Career Information System relies on projected user fee revenues to meet expenses.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
User fees-MCIS license revenue	$132,347	$137,000	$137,000	$137,000	SOICC Board Action
Grant Revenue	5,000	0	0	0	

The Montana Career Information System (MCIS) relies entirely on projected user fee revenues to meet expenses, as shown above. The MCIS, together with the State Occupational Information Coordinating Committee (SOICC), publishes state and national career information software and leases it to schools and agencies. The SOICC Board approves the MCIS fee schedule, which for fiscal 1996 forward is $1,150 for agencies and for schools with enrollments of 200 or more, with discounts given to smaller schools.

ACCOUNTING ENTITY:	Number 06512	Name OPI Indirect Cost Pool	AGENCY:	Office of Public Instruction	PROGRAM	Administration

Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity
Beginning Total Fund Equity	$20,076	$170,388	$0	$0	$20,076	$170,388
Increases						
Revenue: INDIRECT DRAWS	$1,287,216	$1,287,888			$1,287,216	$1,287,888
Revenue: GF TRANSFER	0	0			0	0
Revenue:	0	0			0	0
Other Increases (Specify)	$268,256	$246,462	$0	$0	$268,256	$246,462
(EPP PROPOSALS)						
Decreases						
Personal Services Expenses	($567,400)	($567,314)			($567,400)	($567,314)
3% PAY AND VACANCY SAVINGS	(34,535)	(49,096)			(34,535)	(49,096)
Operating Expenses	(433,243)	(436,505)			(433,243)	(436,505)
AUDIT	(64,982)	0			(64,982)	0
STATEWIDE INDIRECTS	(200,000)	(200,000)			(200,000)	(200,000)
Depreciation/Amortization	(50,000)	(60,000)			(50,000)	(60,000)
Other Decreases (Specify)	($55,000)	($60,000)	$0	$0	($55,000)	($60,000)
(Compensated Absences)						
Ending Total Fund Equity	$170,388	$331,823	$0	$0	$170,388	$331,823

FUND EQUITY BALANCE OBJECTIVE AND THE EXTENT TO WHICH THE PROJECTED BALANCES MEET THAT OBJECTIVE (NARRATIVE):

Objective is to accumulate sufficient fund equity for 60 days working capital, future equipment replacement and termination payouts.
Budget for 1998-99 assumes no equipment will be replaced.

Fee/Charge Description	FY 96 Fee/Charge	FY 97 Fee/Charge	FY 98 Fee/Charge	FY 99 Fee/Charge	Authority for Fee
Indirect Cost Draws	$710,481	$700,000	$1,555,472	$1,534,350	MCA 17-3-111 and HB2
GF TRANSFER	350,000	424,818	0	0	MCA 17-3-111 AND HB2

SCHEDULE 2
WORKING CAPITAL ANALYSIS FOR 1999 BIENNIUM RATES AND FIXED COSTS

ACCOUNTING ENTITY:	Number	Name	AGENCY:	
	6512	OPI INDIRECT COST POOL		3501

Rate/Fee Description	INDIRECT DRAWS FY98	FY99
Estimated Beginning Working Capital Balance	$45,000	$195,312
Projected Revenues		
Indirect Draws	$1,287,216	$1,287,888
Indirect Draws on EPP Proposals	268,256	246,462
Total Projected Revenues	$1,555,472	$1,534,350
Executive Budget Recommended Expenses		
Personal Services	$601,935	$616,410
Operating Expenses	698,225	636,505
Less Non-Cash Expense: Depreciation	50,000	60,000
Less Non-Cash Expense: Compensated Absenses	55,000	60,000
Total Projected Expenses	$1,405,160	$1,372,915
Estimated Ending Working Capital Balance	$195,312	$356,747
60 Days Working Capital Reserve		$225,685
Excess Estimated Working Capital Above (Below) Limit (2)		$131,062

Technical Notes:
(1) Equipment may be included in the calculation of the working capital reserve to the extent that cash or other working capital will be used in the acquisition.
(2) Excess working capitol is available for a) some expansion of pool functions to the extent new proposals in operating are approved b) to allow equipment purchases as needed for the cost pool services, and c) to provide a cushion for underexpenditure of funds by programs, especially federal, which would result in reduced indirect revenues to pool.

Rate Explanation

Office of Public Instruction - OPI Administration

OPI Indirect Cost Pool - The Office of Public Instruction's (OPI) internal service fund (A/E 06512) is an indirect cost pool. Activities accounted for in the pool are currently funded with a transfer from the state general fund, and through application of an approved "indirect cost rate" to the direct cost base in most OPI state and federal special revenue responsibility centers. OPI negotiates a three-year "predetermined rate" with the U.S. Department of Education. The approved rate for fiscal 1998 is 17 percent. A new rate, based on actual fiscal 1997 expenditures, will be negotiated during fiscal 1998 for the three-year period fiscal years 1999 to 2001. OPI's indirect cost plan is prepared in accordance with federal regulations, published in OMB Circular A-87, the Education Department General Administrative Regulations (EDGAR), and 17-3-111(1), MCA.

Activities accounted for in OPI's indirect cost pool are detailed in CV 93700 and include internal central service type operations, such as payroll, personnel, accounting, budgeting, purchasing, word processing and mail delivery. Also included are costs that cannot reasonably be identified with a particular program, such as rent associated with common areas (e.g. bathrooms, hallways), general office supplies, and most of the state fixed costs allocated to OPI.

Indirect Cost Pool Account Expenditures - The budget for CV 93700, which reflects the projected demand for indirect activities, is prepared like every other budget. That is, base year expenditures are adjusted for inflation/deflation, fixed cost increases/decreases and zero-based expenditure objects. For purposes of Schedule 1, personal services and operating expenses are projected to increase by 3 percent per year based upon the fiscal 1997 appropriations.

Depreciation and amortization amounts are based upon the April, 1996, PAMS 180 reports which contain projections for fiscal 1996, fiscal 1997, and fiscal 1998. Since the PAMS report does not contain projections for fiscal 1999, depreciation for this year is computed at the fiscal 1998 amount.

Fixed costs allocated to OPI by other agencies and paid from A/E 06512 include:

2104 Insurance and Bonds
2113 Warrant Writing
2114 Payroll Service fees
2122 Audit
2174 Data Network
2307 Messenger
2527 Rent-DofA (common areas only)
2770 Capitol Complex Grounds Maintenance
2895 SFCAP

There are no new proposals for the OPI Indirect Cost Pool account. The change in budget methodology from a general transfer appropriation to fund the indirect cost pool, the budget OPI has submitted for the 1999 biennium reflects the application of the approved 17 percent indirect cost rate to the direct cost base in all other control variables, including general, state special revenue, and federal special revenue funds.

Retained Earnings and Contributed Capital - As noted in Schedule 1, retained earnings are projected to remain constant during the 1999 biennium.

Working Capital Reserve - The working capital objective for the indirect cost pool account is to maintain a 60 day reserve.

Excess working capitol is provided for: 1) some expansion of pool functions to the extent new proposals in the Administration Program are approved; 2) to allow equipment purchases as needed for the cost pool, and 3) to provide a cushion for under expenditure of funds by programs, especially federal, which would result in reduced indirect revenues to pool. To the extent operations result in actual excess working capital being generated increased payments of statewide indirect cost payments will be made to the general fund.

LFD Issue - **The executive is requesting total indirect cost draws (revenues to the indirect cost pool) of $1,555,472 for fiscal 1998 and $1,534,350 for fiscal 1999. This represents an increase of almost 46 and 44 percent , respectively, over fiscal 1996 indirect cost draws of $1,060,481. This increase is based on the assumptions: 1) that all new proposals will be approved; and 2) all revenues received are expended. The cost pool does not realize revenue until an expenditure is made. For example, if OPI receives $100 federal funds, the cost pool does not realize any revenue until that $100 is expended. When the $100 expenditure occurs, the cost pool records $17 (based on 17 percent) of revenue. Thus, if the new proposals are not approved this reduces the indirect cost draws proportionately.**

Due to the present law and new proposal increases the fund balance increases from $20,076 at the end of fiscal 1997 to $331,823 at the end of fiscal 1999. Thus, the fund balance does not remain constant. Again, this fund balance is obtained only if all new proposals are approved and if actual expenditures occur. Therefore, if revenues provide excess working capital, as stated in the executive's narrative above, indirect cost payments would be made to the general fund.

An issue the legislature may wish to consider is: Does the legislature concur with the executive's budget which builds the fund balance by over $310,000 in the span of two years before deposits are made to the general fund to pay statewide indirect costs? If not, at what point does the legislature wish to have excess working capital going to the general fund for the payment of statewide indirect cost payments versus expanding working capital/fund balance?

ACCOUNTING ENTITY	Number 06514	Name MUS Flexible Benefits Account					
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$73,000	$73,000	$0	$0	$73,000	$73,000	$73,000
Increases							
Premium Contributions	$1,600,000	$1,700,000	$0	$0	$1,600,000	$1,700,000	$1,500,000
Decreases							
Operating Expenses	$45,000	$45,000	$0	$0	$45,000	$45,000	$43,000
Benefits/Claims	1,555,000	1,655,000	0	0	1,555,000	1,655,000	1,457,000
Ending Total Fund Equity	$73,000	$73,000	$0	$0	$73,000	$73,000	$73,000

Rate Explanation

Montana University System

Montana University System (MUS) Flexible Spending Account - Revenues relating to the Montana University System group flexible spending account come from one source: contributions from employees toward their personal flexible spending accounts. Each university system employee has the option of signing up for a flexible spending account for medical reimbursement expenses and/or dependent care expenses. The amount to be paid into the account is determined by each employee, subject to federal regulations of $5,000 maximum.

Montana University System (MUS) Flexible Spending Account Expenditures - The majority of the expenditures for the MUS flexible spending account are for expense reimbursements paid to employees from the account. Anderson Zur Muehlen, the company which administers the account for the university system, is also paid as a contracted services expenditure.

Retained Earning and Contributed Capital - The desirable fund balance in the flexible spending account is zero. However, because this account has been operating on a calendar year basis, a fund balance may exist (and has) at the end of the fiscal year. A zero fund balance at the end of the calendar year indicates that all employees fully utilized their flexible spending accounts. If a balance exists at the end of the calendar year, the balance reverts to the university system, not to an individual employee. To date there have been no balances of any significance.

ACCOUNTING ENTITY	Number 06513	Name MUS Group Insurance					
Description	FY 98 Retained Earnings Unreserved	FY 99 Retained Earnings Unreserved	FY 98 Contributed Capital	FY 99 Contributed Capital	FY 98 Total Fund Equity	FY 99 Total Fund Equity	Comparative Projected FY 97
Beginning Total Fund Equity	$2,056,315	$1,359,315	$0	$0	$2,056,315	$1,359,315	$4,050,548
Increases							
STIP earnings	$320,000	$270,000	$0	$0	$320,000	$270,000	$360,000
Premium Contributions	21,900,000	23,400,000	0	0	21,900,000	23,400,000	19,300,000
Decreases							
Personal Services Expenses	$137,000	$144,000	$0	$0	$137,000	$144,000	$111,103
Operating Expenses	1,980,000	2,100,000	0	0	1,980,000	2,100,000	1,959,657
Benefits/Claims	20,800,000	21,300,000	0	0	20,800,000	21,300,000	19,583,473
Ending Total Fund Equity	$1,359,315	$1,485,315	$0	$0	$1,359,315	$1,485,315	$2,056,315

Rate Explanation

Montana University System

Montana University System (MUS) Group Insurance Account Revenues - Revenues relating to the Montana University System Group Insurance account come from two sources: premiums and interest earnings. The premium contributions include the state's employer contribution and the employees' out-of-pocket. This revenue scenario was put together without weighting what portion of premium increases would come from employer share or employee out-of-pocket. The premium revenues were calculated based on the revenue necessary to pay expenditures with an assumed medical trend and to generate a healthy reserve for the fund.

Montana University System (MUS) Group Insurance Account Expenditures - Expenditures for the MUS Group Insurance Account assume a medical trend factor of 6.4 percent for fiscal years 1997, 1998, and 1999. The MUS Inter Unit Benefits Committee has proposed changes to the employee benefits plan, which would be effective July 1, 1997. These changes are designed to keep plan premiums in line with expenditures for the 1999 biennium.

Retained Earning and Contributed Capital - When the State of Montana decreased employer share of premium contributions for the 1997 biennium, the MUS Inter Unit Benefits Committee decided not to increase employees' out-of-pocket contributions. Therefore, the account spent down its reserves from $5.1 million at the beginning of fiscal 1996 to the account's current fund balance of $4.05 million. The balance will be further eroded during fiscal 1997. The proposed 1999 biennium budget replaces some of the spent reserves.

LFD Comment **- The fund balance is expected to fall to $2.06 million by the end of fiscal 1997. The budgeted rate increase for the 1999 biennium is expected to maintain fund balances of $1.36 million in fiscal 1998 and $1.49 million in fiscal 1999.**

This decrease in fund balance from the $5.1 million at the beginning of fiscal 1996 will not cause difficulty if it does not go lower. The agency also maintains a cash balance set aside for incurred but not reported (IBNR) claims, which is not reported in the fund balance. The IBNR balance will be maintained at $3.2 million for each year of the 1999 biennium. Industry standards stipulate that a healthy fund balance is at least 30 percent of the IBNR, which is $960,000. Therefore, the fund balances expected by the agency are approximately 150 percent of the minimum $960,000 and should be sufficient for the biennium.

Mission Statement

To be Montana's insurance carrier of choice and industry leader in service.

Agency Description

The State Compensation Insurance Fund (State Fund) provides liability insurance for workers' compensation and occupational disease and may not refuse coverage to any employer requesting coverage (Title 39, chapter 71, MCA). The Montana Workers' Compensation Act requires all employers in Montana who have employees in service to carry workers' compensation insurance. The Department of Labor and Industry regulates the workers' compensation industry in Montana. Three plans exist for coverage: Plan I-Self Insured; Plan II-Private Insurance Companies; or Plan III-State Compensation Insurance Fund (State Fund). The State Fund is a nonprofit public corporation.

The State Fund guarantees the availability of workers' compensation coverage for all employers in Montana. Montana law requires the State Fund to insure any employer in the state who requests coverage, except those in default of a prior payment to the fund. As provided in law, the State Fund insures all state agencies.

Under the workers' compensation laws of Montana, the State Fund is liable for payment of benefits to employees for injuries arising out of and in the course of employment, or in the case of death or injury, to the beneficiaries.

The State Fund has two programs:

1) The State fund, also referred to as the New Fund, which is responsible for administering claims of both the New Fund and the Old Fund and for benefits on claims for injuries occurring on or after July 1, 1990;

2) The Old Fund, which is responsible for benefits on claims for injuries that occurred before July 1, 1990.

Management of the State Fund is vested in a five-member board of directors (Board) appointed by the Governor. Statute requires the State Fund to set premium rates at levels sufficient to fund the insurance program, including the costs of administration, benefits, and adequate reserves. The State Fund is subject to laws governing state agencies, unless specifically exempted by statute.

HB 13 passed by the 1993 legislature provided for the statutory appropriation of all funds deposited in the State Fund beginning July 1, 1993. The legislation requires the board to establish the State Fund budget within statutorily designated parameters, and to submit its budget and annual financial report to the Governor and the legislature. Because the State Fund has a statutory appropriation, it is no longer budgeted in the general appropriations act.

State Compensation Insurance Fund (State Fund) Budget Overview

The budget tables and accompanying narrative for the State Fund contained in the are for informational purposes only and are based on a two-year State Fund staff projection of State Fund operations. The State Fund board has not approved these expenditure levels for fiscal 1998 and fiscal 1999.

The State Fund board of directors is required, under 39-71-2363, MCA, to approve the State Fund budget which is submitted annually by the State Fund executive director. The submitted budget shall consist of an estimate of the entire expense of administering the State Fund for the succeeding fiscal year, with due regard for the business interests and contract obligations of the State Fund. The administrative expenditures approved by the State Fund board may not exceed 15 percent of the prior

fiscal year's earned annual premium. The board must submit its budget and annual financial report to the Governor and legislature each year indicating the business done by the State Fund.

In September 1996, the State Fund Board of Directors declared a dividend from excess surplus in the New Fund of up to $109 million. According to state law, the dividend was required to be used to pay off the liabilities in the Old Fund. In October 1996, a portion of the dividend was used to retire the outstanding Series 1991 bond debt, saving an estimated $85.1 million in interest expense.

The budget tables shown below reflect projected operating and claims expenditures only. Estimates for claims payments are periodically updated by the State Fund's actuary and are subject to change. The board approves a budget annually.

STATE FUND (Program 01)

Table 1

	Base Fiscal 1996	Estimated Adjustments	Total Fiscal 1998	Estimated Adjustments	Total Fiscal 1999
Full Time Equivalent Employees	250.15	(17.40)	232.75	(17.40)	232.75
Personal Services	$7,842,575	$305,347	$8,147,922	$468,306	$8,310,881
Operating Expenses	7,722,944	(632,954)	7,089,990	(631,346)	7,091,598
Equipment	1,037,336	1,018,513	2,055,849	(487,336)	550,000
Benefits	70,950,232	7,358,093	78,308,325	10,327,991	81,278,223
Total Program Costs	$87,553,087	$8,048,999	$95,602,086	$9,677,615	$97,230,702
State Fund Net Premium Income	$114,497,763	($33,602,487)	$80,895,276	($32,084,763)	$82,413,000
State Fund Investment Income	33,125,227	(4,952,767)	28,172,460	(6,456,917)	26,668,310
State Fund Other Income	518,646	(43,646)	475,000	(43,646)	475,000
Total Funding	$148,141,636	($38,598,900)	$109,542,736	($38,585,326)	$109,556,310

Explanation of Budget - The fiscal 1998 and fiscal 1999 budgets estimate the entire expense of administering the State Fund. The budgets are necessary to achieve the goals and action plans established in the State Fund fiscal 1997 Strategic Business Plan approved by the board in June 1996. Major initiatives of the Strategic Business Plan are to:

- Provide quality customer service;
- Provide underwriting and loss control services to customers;
- Strengthen human resources development and technological advances; and
- Maintain financial stability.

Based on the estimated budgets of the State Fund and the decrease in earned annual premium, the budgets estimated for fiscal 1998 and fiscal 1999 are in excess of the statutory cap on administrative expenditures of 15 percent of the previous years earned annual premium. The State Fund Board of Directors will not approve a budget which exceeds a statutorily established limitation. State Fund management will initiate legislation and work with the legislature during the 1997 legislative session to address the issues relating to the 15 percent cap on administrative expenditures, i.e., examine the requirement for an administrative expenditure cap, review the need to continue or adjust the administrative expense ratio, determine the level of a new ratio, define the elements to be included in the calculations of a new ratio, and describe the amount of discretion, if any, the board should have in adjusting a cap as business mandates.

The increase in the administrative ratio can be attributed to a significant reduction in earned premium. Earned premium peaked at $182.5 million in fiscal 1994 and is estimated at $87 million in fiscal 1997, $80.9 million in fiscal 1998, and $82.4 million in fiscal 1999. The number of policyholders insured by the State Fund is remaining relatively stable during this time

period. This reduction in earned premium is, in large part, a result of State Fund reductions in premium rates of 38 percent over fiscal 1996 and fiscal 1997. It is the State Fund's position that the 15 percent cap on the administrative expenditure ratio, coupled with the ability to reduce earned premium through reduced premium rates, results in conflict for the State Fund to continue to operate effectively and offer needed services to its customers. The level of administrative expenditures needed to assist in providing the reduced insurance costs to customers and to control loss expenditures will not be available in future years under current statute.

Explanation of Changes - Personal services increases over fiscal 1996 are approximately $305,000 for fiscal 1998 and $468,000 for fiscal 1999. These increases are part of the market-based pay for performance compensation program being developed at the State Fund. This program will be fully implemented in fiscal 1998. The State Fund decreases from 250.15 FTE in fiscal 1996 to 232.75 FTE in fiscal 1997. This level of FTE is expected to continue through fiscal 1998 and fiscal 1999.

- 9.60 FTE are eliminated due to the efficiencies of paper less work flows being created by the Benefits Information System (BIS) at the State Fund.
- 2.50 FTE for computer programming staff has been eliminated.
- 4.50 FTE has been reduced from the premium audit function as a result of modifications to the premium audit process.
- 0.80 FTE have been eliminated as the net result of cross training in the customer service and first reporting units.

The market-based pay for performance system provides an incentive for State Fund employees to increase performance within their job profiles. Increased employee performance is critical to the success of the State Fund which has reduced FTE from 268.75 in fiscal 1995 to 232.75 for fiscal 1997. Each employee's performance is linked to the State Fund mission through goals detailed in the State Fund Strategic Business Plan. Employee achievements are assessed semiannually based on individual performance criteria established annually. Achievements include improved claim management and early return to work programs, improved financial stability and rate decreases, fraud savings, additional underwriting programs, and improved loss control and customer services.

LFD Issues & Comments

1) Personal Services - As shown in Table 1, the overall program costs increase by 9.2 percent from fiscal 1996 to fiscal 1998 and 11.1 percent from fiscal 1996 to fiscal 1999. The majority of the increase is due to growth in benefit payments. Table 1 also reflects an increase in budgeted personal services for fiscal year 1998 and 1999 of 3.9 percent and 6.0 percent, above the 1996 base. However, the State Fund realized a $232,215 reduction in personal services costs due to the elimination of 17.4 FTE. If this amount is added to the increase in personal services for fiscal 1998 and fiscal 1999 of $305,347 and $468,306, the increase is even higher. The $232,215 savings added to the personal services increases shown in Table 1, results in growth of 6.9 percent from fiscal 1996 to fiscal 1998 and 8.9 percent from fiscal 1996 to fiscal 1999.

The majority of the increase is a result of the impact on all State Fund staff due to the implementation of a market-based pay for performance system. However, the agency's personal services costs also include $35,853 for "management incentive program payouts" to eight management staff, varying from $871 to $10,912 per person.

2) Reduced Funding - Table 1 also shows a significant decrease in funding, primarily due to reduced premium income. As mentioned above, this decreased funding is due to the State Fund reductions in premium rates

of 38 percent over fiscal 1996 and fiscal 1997. In addition, because surplus funds were used to defease payroll tax bonds, investment income will also decrease during the 1999 biennium. In September 1996, the Board approved a dividend to the Old Fund of up to $109.0 million. Funds were placed in escrow and dedicated to repayment (defeasance) of the payroll tax bonds. Consequently, these funds are no longer available as an investment to the New Fund.

3) Administrative Cap - By statute, State Fund administrative expenditures approved by the Board cannot exceed 15 percent of the previous year's earned annual premium income (39-71-2363, MCA). Because administrative costs are increasing while premium income is decreasing, adhering to the 15 percent administrative cap has become increasingly difficult. For example, the amount of personal services and operating expenses budgeted for fiscal 1999 total $15.4 million. These costs represent 19 percent of the net premium income estimate for fiscal 1998 of $80.9 million. Based on existing statute and accounting practices, the Board would not approve the fiscal 1999 budget as long as administrative costs are in excess of the 15 percent cap.

State Fund management is currently reviewing a number of options related to how administrative costs are "accounted for." Consequently, the State Fund will be seeking legislative changes regarding the types of administrative expenditures used in determining the 15 percent limitation. Should these changes not be approved by the legislature, the State Fund has identified potential operating budget reductions for fiscal years 1998 and 1999 that would allow them to adhere to the 15 percent cap, including further reductions in FTE by as much as 26 in fiscal 1999. Part of the difficulty, according to State Fund personnel, is that between 5.5 to 7.2 percent of the 15 percent ratio relates to fixed costs which the State Fund has minimal flexibility to reduce. Some of these costs include the administrative assessment paid to the Department of Labor and Industry, fees for an outside consulting actuary, and utilities. A couple of issues the legislature may wish to consider regarding the 15 percent limitation include:

1) According to Table 1, the majority of increase in administrative expenses is attributable to increased personal services costs. If legislation addressing the 15 percent cap is not approved and the State Fund is required to reduce operating costs, what impact will those reductions have on the service to State Fund customers?

2) The State Fund functions as a proprietary agency and their funding is statutorily appropriated. Thus, concerns regarding the 15 percent limitation do not relate to an increase in funding, but an increase in flexibility. Should the State Fund be granted more flexibility in terms of their administrative expenditures than is currently allowed? If so, how much more should be granted and what safety measures should be instituted to ensure the Fund's continued solvency?

Operating expenses are anticipated to decrease from the fiscal 1996 base by $632,954 in fiscal 1998 and $631,346 in fiscal 1999. This decrease in expenditures is primarily the result of reduced cost for the administrative assessment, and state mainframe use because of the increased use of BIS and overhead savings from decreased staff.

Equipment increases from the fiscal 1996 base by $1,018,513 in fiscal 1998 and then decreases for fiscal 1999 by $487,336. The State Fund is in the process of developing a Policy Services, Accounting, Audit, and Loss Control System (PAALS). The board has determined that PAALS is necessary to increase service to customers and to increase the efficiency of work flows. PAALS is expected to be completed in fiscal 1998.

Benefits include payments to individuals and allocated loss expenses. The projections have been developed by State Fund staff. Benefit projections are monitored and revised periodically based on updating projection models developed by State Fund staff and an independent actuary. The budgets reflect claims incurred on or after July 1, 1990.

OLD FUND (Program 02)

Table 2

	Base Fiscal 1996	Estimated Adjustments	Total Fiscal 1998	Estimated Adjustments	Total Fiscal 1999
Full Time Equivalent Employees	0.00	0.00	0.00	0.00	0.00
Operating Expenses	$228,154	($178,154)	$50,000	($178,154)	$50,000
Benefits	22,073,727	(3,707,744)	18,365,983	(4,809,703)	17,264,024
Debt Service	8,921,477	(8,921,477)	0	(8,921,477)	0
Total Program Costs	$31,223,358	($12,807,375)	$18,415,983	($13,909,334)	$17,314,024
Total Funding - Old Fund Liability Tax	$46,439,369	$660,631	$47,100,000	$660,631	$47,100,000

Explanation of Budget - State Fund staff establish the budget of the Old Fund, and it is approved by the State Fund Board of Directors as a part of State Fund budget. All funds to pay for the expenditures of the Old Fund are collected through the Old Fund Liability Tax. Expenditures incurred by the State Fund for administering the Old Fund claims are budgeted to the State Fund and allocated to the Old Fund quarterly. Statute limits the administrative expenditures of the Old Fund to $3.0 million. The costs of administering the Old Fund are allocated to a variety of State Fund functions and are estimated to be $1.8 million in fiscal 1998 and $1.7 million in fiscal 1999.

Explanation of Changes - Operating expenses decrease from fiscal 1996 to fiscal 1998 and fiscal 1999 by $178,154. This reflects a change in the account coding for allocated loss expenses. These expenditures were shown as operating expenditures in fiscal 1996 and prior years. Starting in fiscal 1997 these expenditures will be coded as benefits.

Benefits include payments to individuals and allocated loss expenses. The projections have been developed by State Fund staff. Benefit projections are monitored and revised periodically based on updating projection models developed by State Fund staff and an independent actuary. The budgets reflect claims incurred prior to July 1, 1990.

Debt service payments have included approximately $9 million per year for principal and interest on the 1991 series payroll tax bonds and the 1993 variable note issue. Due to bond defeasance which occurred in fiscal 1996 and the application of the New Fund excess surplus dividend, these bonds will be retired in fiscal 1997.

Funding

The State Fund is primarily funded by workers' compensation premiums and investment earnings on State Fund assets. The State Fund administers the claims of the Old Fund and charges the cost of administering the claims to the Old Fund. The State fund is statutorily limited to spend no more than $3 million per year for claims administration of the Old Fund.

The Old Fund is funded by the Old Fund Liability Tax (OFLT), enacted in the 1993 legislative session and administered by the Department of Revenue. The OFLT rates are established at 0.50 percent of payroll for employers, 0.20 percent of salary and wages for employees, and 0.20 percent on the profit of self-employed individuals.

In July of 1989 the Legislature appropriated $20 million from the general fund to the workers' compensation tax account for fiscal 1990. This money was used to reduce the unfunded liability in the State Compensation Mutual Insurance Fund. On

November 13, 1996, the Director of the Office of Budget and Program Planning requested the State Fund Board of Directors consider supporting legislation to return the $20 million to the general fund.

The State Fund Board of Directors addressed this request at its November 15, 1996 meeting. The Board of Directors discussed the request and then passed the following resolution:

> "Management is to draft a letter to Dave Lewis advising that the Board believes based on surplus estimates, and contingent on merger of the funds, receipt of payroll tax proceeds thru 12-31-98, increased budgetary independence for appropriate service levels, and the State Fund office building, grounds, and parking garage declared as an asset, and ownership and control with the State Fund Board of Directors; a payment of $20 million can be made to the General Fund, over a period of up to 4 years, while maintaining adequate surplus in the combined funds."

LFD Issues and Comments

As mentioned previously, the State Fund is managed by a five-member board of directors (Board) appointed by the Governor. The State Fund is subject to laws governing state agencies, unless specifically exempted by statute. HB 13 passed by the 1993 legislature provided for the statutory appropriation of all funds deposited in the State Fund beginning July 1, 1993. While this legislation authorized the Board to establish the State Fund budget within statutorily determined parameters, it also required the Board to submit its budget and annual financial report to the Governor and the legislature. Because the State Fund has a statutory appropriation, it is not budgeted in the general appropriations act (HB 2). Therefore, the State Fund budget has not been analyzed as part of the Governor's Budget. The above resolution passed by the Board does, however, relate to the Governor's Budget. In addition, the Board has made subsequent decisions regarding the above resolution which will be submitted for legislative consideration.

Resolution

The resolution, as shown by the executive, was adopted by the Board in November 1996 in response to a request by the Governor's Budget Director that the State Fund return $20.0 million to the general fund that was appropriated to the Fund in fiscal 1990. According to the resolution, the State Fund has indicated their ability to make the $20.0 million payment is dependent on a number of contingencies, including:

1) **merger of the New Fund and the Old Fund;**
2) **increased budgetary independence;**
3) **transfer of title to the State Fund office building, grounds, and parking garage to the Board;**
4) **a four-year period for payment of the funds;**
5) **receipt of payroll tax proceeds through December 31, 1998; and**
6) **surplus adequacy.**

At their December meeting, the Board adopted a number of changes to these contingencies, as discussed below.

 # 1 - Merger of the Funds **- Should the legislature approve a merger of the two funds, there would no longer be a differentiation between Old Fund and New Fund assets and liabilities. As a result, the Board would attain greater flexibility to pay dividends to State Fund customers. Existing statute forbids payment of such dividends until all claims funded by the Old Fund have been paid (39-71-2316, MCA).**

 # 2 - Increased Budgetary Independence - It is unclear at this time what all the State Fund will be seeking from the 1997 legislature in regard to "increased budgetary independence" or how it relates to their ability to make the $20.0 million payment. A major component of their request, however, will include changes to the 15 percent cap on administrative expenses discussed earlier.

#3 - Transfer of Assets - The 1981 legislature approved the issuance of $4.0 million in general obligation (G.O.) bonds for construction of the building currently occupied by the State Fund. In lieu of paying rent to the Department of Administration (DofA), the State Fund made semi-annual debt service payments on the bonds. Since the bonds have been completely retired, the State Fund currently pays all utility and maintenance costs in lieu of paying rent. As with all state-owned buildings, the State Fund properties are insured through DofA. Insurance premiums for the building, grounds, parking lot, and contents, are based on a value of $5.6 million. Buildings occupied by state agencies are property of the state of Montana and not the individual agencies.

The Board voted at the December meeting to withdraw their request for this transfer of assets based on advice from the Legislative Audit Division.

#4 - $20.0 Million Payback - The Governor's Budget includes residual equity transfers to the general fund of $12.9 million in each year of the 1999 biennium. Included in these transfer amounts is $10.0 million each year from the State Fund. Consequently, the executive proposal for a general fund ending fund balance for fiscal 1998 and fiscal 1999 is based on receipt of the $20.0 million State Fund payment. Should these transfers not be realized, the executive projected general fund ending fund balance for the biennium would be reduced by $20.0 million.

Consequently, the Board has agreed to repay the $20.0 million during the 1999 biennium, based on some new contingencies tied to the payroll tax.

 # 5 - Payroll Tax - The State Fund estimates payroll tax proceeds for fiscal 1998 and 1999 will be about $47.1 million each year. Of this amount approximately 71.4 percent will be collected from the tax on employers and 28.6 percent from employees. As of fiscal year end 1996, the balance sheet for the Old Fund reflects estimated claims liability of $248.8 million. Annual benefit payments for Old Fund claims are predicted to decrease from $22.1 million in fiscal 1996 to $18.4 million in fiscal 1998 and $17.3 million in fiscal 1999. The amount of tax collected in excess of payments is invested, and investment earnings are used as additional funding for the payment of Old Fund claims and expenses.

The resolution suggests that, based on actuarial projections, collection of the payroll tax can be eliminated at the end of calendar 1998. This possibility is due, in large part, to the defeasance of the payroll tax bonds (mentioned earlier). However, there are several considerations if the payroll tax is eliminated in 1998 and tax proceeds, coupled with interest earnings, are insufficient to support Old Fund claims.

a) Premium income received from State Fund customers may be required to support Old Fund claims. If this income source is insufficient, one option is to increase premium rates charged to current and future customers.

b) Liabilities associated with the Old Fund are liabilities of the state of Montana. If funding obtained by the State Fund is insufficient to pay claims, the legislature will be required to provide the necessary funding. The State Fund suggests leaving the tax in place until December 31, 1998. The legislature

may wish to consider whether to wait two years to review the fiscal solvency of the State Fund to determine whether or not the payroll tax is still necessary.

The Board's agreement to repay the $20.0 million within two years instead of four raised some concerns regarding the resultant impact on Fund solvency. Consequently they voted to add some contingencies to the removal of the payroll tax on December 31, 1998.

Initially, the State Fund had requested the option of extending payment over a four-year period of fiscal 1998 through fiscal 2001, should the 1999 biennium payments not be fiscally possible. Since they have agreed to make a $10.0 million payment at the end of fiscal 1998 and fiscal 1999, options are included for extending collection of the payroll tax to either June 30, 1999, or December 31, 1999. Whether or not the tax is extended depends on the State Fund's claim reserve liability to surplus ratio. However, legislation proposed by the State Fund mandates the tax will terminate January 1, 2000, regardless of the projected claim reserve liability to surplus ratio. Even with contingencies for extending the termination date, the concerns regarding the payroll tax proposals presented in a) and b) above still apply.

 # 6 - Surplus Adequacy - The State Fund will consult an outside, independent actuary regarding the determination of surplus adequacy. In addition to the amount of reserve funds available, a number of factors considered based on national standards for the industry. Consequently, State Fund management has indicated that all of the contingencies presented in the resolution -- including the subsequent changes by the Board -- are an integral part of the agency's ability to meet the $20.0 million payment request.

These various components of the resolution will be included in a single piece of legislation affecting a variety of aspects related to State Fund operations. This legislation will be introduced at the request of the Governor.

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